The SADC Free Trade Protocol as a vehicle for the Angolan Post-War Economic Recovery

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Assignment presented in partial fulfillment of the requirements for the degree of Master of Arts (International studies) at the University of Stellenbosch

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December 2002

DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and has not previously in its entirety or in part been submitted at any university for a degree.

ABSTRACT

Free trade is said to maximize welfare in a world organized by nation-states. To participate in the global economy more effectively most nation-states have implemented economic policies with the objective of freeing international trade. This movement has been facilitated by the process of globalization which has had unparalleled effects on the economic policies of countries worldwide. However, countries have found it increasingly difficult to manage their economies at the multilateral level since the benefits of global free trade are not equally shared. This has led to an increase in Regional Integration Agreements (RIAs), which are seen as a tool for strategic growth and development while promoting free trade on a more restricted basis.

In the last decades of the 20th century, the world has seen an increase in the number of RIAs particularly in Sub-Saharan Africa. However, empirical evidence has shown, contrary to what happened in Europe, that in Africa most attempts at economic integration have failed to promote meaningful economic growth and development. Notwithstanding that, the Southern African Development Community (SADC) has embraced economic integration as a strategy for growth in the region. Focusing on SADC and the Angolan economy as the main units of analysis, this study looks at the theory of economic integration to evaluate its validity for the African context and to find out how useful integration is in promoting economic growth and development in less developed countries.

The study concludes that economic integration theory, which was developed within the context of European economies, is not relevant for African economies, which are different in character. Evidence indicates for instance, that in Africa the most important gains from economic integration are dynamic and not static, as the theory seems to suggest. Additionally, contrary to what happened in former attempts at forming RIAs in Africa, SADC has implemented a development integration approach aiming at industrialization. This is important, because according to the "Krugman-Venables model of regional relocation" the least developed countries

can benefit from trade and investment from the most developed ones. The SADC Free Trade Protocol may be harmful for the Angolan economy in the short to medium term because of structural problems. However, it was found that if properly implemented it could play a major role in promoting growth and development in the longer term.

OPSOMMING

Vrye handel, so word beweer, vermeerder welvaart in 'n wêreld wat deur nasie-state georganiseer word. Die ekonomiese beleid van nasie-state is daarop gemik om internasionale handel te dereguleer, ten einde hulle in staat te stel om meer effektief binne die globale ekonomie deel te neem. Hierdie proses is gefasiliteer deur die verskynsel van globalisering wat ongeëwenaarde gevolge vir alle state in die wêreld meegebring het. Nietemin, vind state dit in toenemende mate moeilik om hierdie proses op multilaterale vlak te bestuur, aangesien die voordele van internasionale handel nie in gelyke mate gedeel word nie. Dit het gely tot 'n toename in Streeksintegrasie-Ooreenkomste (SIO's). Hierdie ooreenkomste word beskou as 'n ekonomiese groei en ontwikkeling-strategie, terwyl internasionale handel op 'n meer beperkte grondslag bevorder word.

Tydens die laatse dekades van die twintigste eeu, het die aantal SIO's (veral in Sub-Sahara Afrika) toegeneem. In teenstelling met die ervaring van die Europese Unie, dui die feite aan dat pogings tot ekonomiese integrasie in Afrika nie daarin geslaag het om betekenisvolle ontwikkeling en ekonomiese groei te bevorder nie. Nietemin, het die Suider-Afrikaanse Ontwikkelingsgemeenskap (SAOG) handels-integrasie aanvaar as 'n strategie vir ekonomiese groei in die streek (met as instrument die SAOG Vryehandel-protokol). Met fokus op die SAOG en Angola as eenhede van analise, evalueer die studie die liberale teorie van ekonomiese integrasie, ten einde uitspraak te lewer oor die geldigheid daarvan binne die konteks van Afrika. Tweedens, word daar ook aandag geskenk aan die vraag of ekonomiese integrasie 'n optimale strategie is vir die bevordering van ekonomiese groei en ontwikkeling in minder-ontwikkelde lande.

Die gevolgtrekking wat gemaak word is dat ekonomiese integrasie (soos ontwikkel binne die Wes-Europese konteks) nie relevant is vir die eiesoortige omstandighede van Afrikastate nie.

Daar is, onder andere, bevind dat die belangrikste voordele van integrasie in Afrika dinamies is, en nie staties nie (soos die teorie van ekonomiese integrasie dit in die vooruitsig stel). Daarby, en teenstrydig met vorige pogings tot die vorming van SIO's in Afrika, het die SAOG 'n ontwikkelings integrasie benadering aanvaar. Hierdie benadering is gemik op eweredige industrialisering in die streek. Dit is 'n belangrike punt, want volgens die "Krugman-Venables model van streekshervestiging" kan die minder ontwikkelde state voordeel trek van handel met, en beleggings uit die meer ontwikkelde state in die streek. Laatstens, is daar bevind dat die SAOG Vryehandel-protokol in die kort tot medium termyn nadelige gevolge vir Angola sal meebring. Dit is as gevolg van strukturele probleme in die Angolese ekonomie. Nietemin, indien behoorlik geïmplementeer, kan dit 'n betekenisvolle rol speel in die bevordering van ekonomiese groei en ontwikkeling oor die lang termyn.

Acknowledgements:

I would like to thank the Ministry of Fisheries and Environment of Angola especially the Minister Mrs. Maria de Fátima Jardim for the financial support granted to me for the completion of this study.

A big thank you must also go to my supervisor Mr. Anthony Leysens for guiding and providing me with the necessary help and advise during the research process. You were extremely helpful. Thank you for being so patient.

I want to thank my soul mate Lorraine Mutambiranwa for the sleepless nights spent helping me to sort out information for this study and for just being there whenever I needed. It was worthwhile.

I also want to thank my parents, brothers, sisters and friends who lent support in any way so that I could finish this project. Here I want to single out my elder sister Victoria de Barros Neto and friends Deon Martin and Omari Hutchison for the unconditional and continued encouragement.

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CHAPTER ONE

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1.2 Purpose of the Study

The purpose of this study is to find out if Regional Integration Agreements (RIAs) are a viable model for sustainable economic growth and consequent development in Sub-Saharan Africa (SSA). At the turn of the 21st Century most countries in Sub-Saharan Africa are experiencing an economic crisis of unprecedented magnitude. After attempting to implement development strategies such as import substitution right after the wave of independence that swept the continent and Structural Adjustment Programs (SAPs) in the early 1980s, the early 1990s saw the revival of RIAs as a strategy for development particularly in Sub-Saharan Africa as a result of the failure of the former strategies to produce the desired results. Therefore, taking into account past experiences of Regional Integration Agreements it is important to examine how useful these arrangements can be in promoting economic growth.

To that end this research assignment will look at the Southern African Free Trade Protocol as the engine for Angolan post-war economic development since trade liberalisation is said to promote increased investment, economies of scale, increased competition and political stability (Mshomba, 2000:181). Bearing in mind the fact that Angola is one of the SADC Less Developed Countries (SADC LDCs) and a country with high potential for growth, it will be one of the arguments of this study that although there will be negative consequences in the short term, the Free Trade Protocol if properly implemented can be useful to promote development in the country and integrate the economy of the country regionally as well as globally. It has to be noted, however that trade alone will not bring about the much-desired sustainable economic growth, as it must be supplemented with sound macroeconomic policies, which will strengthen free trade.

1.3 Background to the Study

The post-war economic structure was devised at the end of the 1940s with the creation of the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade (GATT), and later the World Trade Organisation (WTO). The aim was to promote free trade through liberalism and ensure a smooth and stable environment for world trade that would lead to economic growth and development (Isaak, 1995:121). While promoting free trade at the international level, a task that was facilitated by their surveillance and the implementation of international trading rules, the world-wide liberalisation of markets for goods and capital and the changes in the production sphere led to production becoming more internationalised. Thus with regulations across states becoming more alike the pace of economic and political interdependence among countries was accelerated, giving rise to globalisation (Busch, 1999: 29).

The concept of globalisation must be examined together with that of globalism as stated by Keohane and Nye (2000:105-108). Globalism may be defined as a state of the world involving networks of interdependence at " multicontinental distances" and globalisation as the increase of globalism which is divisible into various dimensions of which the most widely referred is economic globalisation. Their relationship is therefore fostered through the flows of capital and goods in addition to the influence of information, people, ideas and forces. Globalism is thus an ancient phenomenon evident in imperialism and in the growing flows between politically independent countries, with globalisation taking place from as early as the 1850's. While globalism is a state of affairs, globalisation is the process of increasing globalism. Globalisation therefore, describes the increasing variety of interconnections between states and societies in being a vehicle by which events, decisions and activities in one part of the world can affect individuals and communities across the globe (Busch, 199: 22).

As a result fifty years after the Second World War, the global economy has entered into a completely new phase of development. Changes brought by globalisation are having unprecedented effects on trade, technology and economic policy in countries around the world (Bairoch, 1996:173). The fact that not all economies of the world benefit from globalisation in the same manner has to do with the belief that one of the pre-requisites for successful participation in the global economy is that countries must implement economic policies that are in tandem with the principles of free trade promoted by the Breton Woods institutions (IMF and the WB) and the World Trade Organisation. Although many developing countries have liberalised, they have done so without the expected results either because they were still heavily reliant on primary commodities as main exports, the terms of trade were against them or the liberalisation process took place under SAPs. In Sub-Saharan Africa many countries underwent some kind of SAP during the 1980s at the insistence of donors and in the majority of the cases however, liberalisation was abandoned or reserved since governments had no incentives to maintain it after the aid ran out (Gunning, 2001: 162).

The principles based on the liberal perspective, characterise international free trade, as trade without tariffs and non-tariff barriers where efficiency would be generated by the operation of market mechanisms. However for the mechanisms to operate fully there should be as little intervention as possible of states in the markets at home as well as on the international front. The theory of international free trade, advocates that in order for states to benefit from it they should avoid the implementation of protectionist policies given the fact that commerce without barriers makes nations efficient, promotes co-operation and economic growth. Free international markets stimulate industry and the competition that arises stimulates innovation, which in turn increases production levels and the standard of living of the population (Balaam and Veseth, 1996: 45).

It is demonstrated by some theories of international trade, that states maximise welfare by allowing free trade in a world organised into nation-states. According to David Ricardo (in Lawrence, Bressand and Ito, 1996: 45), nation-states can gain a lot from trade if costs differ internationally by exploiting their comparative advantage. The theory of comparative advantage is one of the most influential theories in economics. It states that a nation should buy or import a commodity from abroad when the costs of importing it are lower than the costs incurred if the same commodity is produced at home. In other words, a country has a comparative advantage over another if when producing a good it can do so at a lower opportunity cost (the value of the best forgone alternative product that could be produced) than other countries (Todaro, 1981: 402). Many states, therefore, are motivated to trade freely with one another by the theory of comparative advantage as they can gain more through specialisation in certain commodities. As a result and with the objective of participating more effectively in the global economy, most countries around the world particularly those from Europe and North America have implemented economic policies aimed at freeing international trade by reducing tariff and non-tariff barriers in accordance with the rules of the General Agreement on Tariffs and Trade and the World Trade Organisation (Keegan and Green, 1997:234).

Therefore globalisation of trade has to some extent promoted regionalism as a means for states to control regionally what they are evermore unable to manage at national and multi -lateral levels. While international economic relations become global in nature there seems to be a simultaneous decline in the multilateral trading system. This is due to the fact that regionalism has gained a prominent place as a basis for strategic growth and development as it is widely seen as a vital tool towards aiding the promulgation of free trade theory within confined geographical areas (Gibb, 1999: 1,7) The increasing number of RIAs sprouting around the world is indicative of the growing awareness of regionalism especially among the developing countries and the slow pace of GATT and WTO negotiations which has led many nations, including the USA to reassess the regional option despite being strongly dedicated to the multilateral approach (De Melo and Panagariya, 1992:4). However it is important to note that while the shift towards regional integration is underway, the WTO remains a significant party in trade negotiations, monitoring member states' trade policies and is the only organisation which offers mediation in cases where conflict may arise. Thus the long-term viability of regionalism versus that of mulilateralism is still debatable.

African leaders have begun to explore economic integration as a strategy for growth and development and as a result several endeavours have been made to nurture economic groups formed during colonial rule or to create new ones. SSA is home to at least 12 regional economic groups and their subsidiaries (Mshomba, 2000: 181). Attempts at regional integration in SSA started in early 20^{th} century through alliances such as the SACU of 1910 and the EAC of 1919, however the 1970's saw the vast majority of RIAs being established in the continent due to the decreasing belief in the global economic system which was not seen to provide a level playing field to developing countries as it did to their more developed counterparts. This view is still widely held today (Lyakurwa et al, 1997:175).

Following the trend regarding the revival of regional integration agreement due to the successes attained by the European Union, and to effectively integrate their economies within the process of multilateral trade liberalisation in order to benefit from trade and promote economic growth and development, countries in the Southern African region, through the Southern African Development Community (SADC), have also embarked on the route to create a Regional Integration Arrangement or free trade area aiming at regional trade liberalisation with a gradual phasing out of tariff and non-tariff barriers while maintaining external tariffs to non-members.

The Southern African Development Community (SADC) was created from the Southern African Development Coordination Conference (SADCC) established in 1980. SADCC was then created with the aims of reducing the dependence of the countries in the region on the rest of the world, especially South Africa that was at the time ruled by a white minority government, and to promote regional cooperation. It has to be noted that SADCC was never intended as a vehicle for a regional trade arrangement. Nevertheless it was important in fostering political cooperation among the leaders of the region and as a means to attract foreign aid (Jenkins, Leape and Thomas, 2000: 6-7).

Due to changes taking place in the international arena and within the region particularly, SADCC changed its name to SADC in 1992 and broadened its concerns to facilitate regional economic integration as a vehicle for growth in the region. The viability of SADC as an economic community was enhanced when in 1994 South Africa, the economic giant of the region, decided to become a member state of the organization. Taking into account the potential of the region and after a series of talks among member countries, a trade protocol was signed in 1996 with the aim to establish a free trade area in the next decade. SADC member states are at the moment Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (Jenkins, Leape and Thomas, 2000: 6-7).

1.4 Research Guidelines and Problem Statement.

SSA still plays a peripheral role in the world's economy as this region has not been able to develop into an efficient trading unit. This may be partly attributed to the fact that the vast majority of African countries have failed to amalgamte their economies effectively. Many argue, that this situation can change if African countries can therefore effectively integrate their economies. In support of this argument are African leaders who view regional economic integration as a viable strategy for development in the continent (Mshomba, 2000: 175). Taking into account the size of these countries' economies regional integration is inevitably a viable means to sustained economic development. The combined GNP of all the SSA countries in 1989 was said to be equal to that of Belium ranking them among some of the world's poorest countries (Faroutan, 1993:234). In addition these countries are also very poorly endowed with physical and human capital. In the belief that free trade areas create economies of scale that are fundamental in overcoming the limited capacity of domestic markets is it then reasonable to promote regional integration in Sub-Saharan Africa in its present condition (Kalenga, 2000: 4).

Although regional integration has had strong political appeal in Africa experience has shown however, that very little has been achieved. For instance, Elbadawi (1995) cited, by Gunning (2001: 159), concludes in one of his studies that regional integration in the continent has been a failure as case studies show in many instances that regional integration has simply not been seriously pursued. A common characteristic of many of the arrangements is that treaty provisions have never been implemented and the institutions created under the agreements do not function. In a number of cases serious implementation is not viable due to the fact that there is a significant overlap in the membership of the groupings as many countries belong to RIAs with mutually incompatible provisions (Gunning, 2001: 159).

The Economic Community of Western Africa is a note worthy example. It's the result of a treaty signed in 1975 but came into being in 1977. ECOWAS consists of 16 members who were to implement trade liberalisation in 1979 with completion taking place in 1989. The aim of this RIA was to create a free trade area promoting industrialisation ad economic development within the region and to evolve into a fully-fledged customs union by 1990 (Lyakurwa, 1997:180).

However, trade liberalisation did not start until 1990 and to date none of the goals set out in the treaty have been achieved. The fact of the matter is that ECOWAS is dominated by Nigeria, which has a larger economy relative to those of other member states. Concerns about the consequences of Nigerian hegemony have led to reluctance on the part of the other member states to import Nigerian manufactured products. On the other hand, Nigeria is apprehensive regarding the CFA Franc zone membership of many of the ECOWAS' members. In addition to that, Nigeria reversed seven years of liberalisation and the trade reforms started in 1986 (Gunning, 2001: 160).

A major problem with the RIAs in Sub-Saharan Africa is that early attempts have been designed without meaningful provisions regarding incentives for the contracting parties including compensation arrangements in cases where there was the potential for benefits to be unequally distributed (Gunning, 2001: 160). Furthermore, although RIAs failed for many reasons in the continent, Fine and Yeo (1997: 435), argue that another cause was the failure to take into account the incentives facing various actors such as political leaders, civil servants and the private sector and the failure to incorporate other non-state actors from the civil society. According to them, one of the reasons was that regional integration arrangements were based on the premise of import substitution policies and state led growth, a fact that ignored incentives assuming that the government could be effective as social planner which in practice it could not (Fine and Yeo, 1997: 435).

In Africa, even, if regional integration had been more seriously pursued, the result would not have been different. According to Srinavasan (in Gunning, 2001: 161), referring to regional integration in South Asia there are at least four conditions that are considered to be important for successful regional integration agreements particularly free trade areas. For instance there should be high tariffs in place prior to the RIA; the level of intra-regional trade should be considerable before the formation of the RIA; there should be complementarities in demand and the member states should have significantly different factor endowments. While on the one hand only the first condition if fully satisfied in Africa, on the other hand, intra-regional trade is negligible in all the African regional schemes and the structure of demand and production is very similar across African countries. These facts make it difficult for the third and the fourth conditions to be fulfilled (Gunning, 2001: 161).

In studying the SADC inlight of the economies of member states it is evident that intra-regional trade is far out numbered by trade with the rest of the world. For instance in 1994 intra-regional trade was less than 4% of their regions total trade. This trend may be attributed to the non-complementary nature of these countries' economies which bring a cerain amount of competitiveness among them since they produce similar goods. These similarities in production may be due to the import substitution policies of industrialisation which focused on production within a domestic market protected by high tariff barriers. This has resulted in a vast duplication of and the goods they produce leaving little room for diversification through regional trade. (Maasdorp & Whiteside, 1992:21).

In addition to the former, trade occurs through two major trading blocs, the SACU and the PTA, and also through various bilateral agreements. This has brought about the unsuccessful implementaion of provisions in the agreements. Thus in counting tarriff barriers as one the major obstacles for intra-regional trade, Lesotho and Swaziland would be unable to participate in tarriff reductions with SADC countries that are part of the PTA agreement due to their overlapping membership of SACU and the PTA (Maasdorp & Whiteside, 1992:17).

Fine and Yeo (1997: 435) attribute the failure of RIAs in Sub-Saharan Africa in part to the fact that a more active participation of the private sector has so far been disregarded. Similarly, the SADC has until recently neglected the important role that the private sector can play for the successful implementation of the Free Trade Protocol and here a lesson should be learned from the Association of South-East Asian Nations (ASEAN) that from the beginning awarded the private sector a key role in the operations of the organisation. Although only recently the SADC has established the Councils of Business, organised commerce and industry still do not play the necessary role in helping devise government policies in the region. In effect, the organised business sector in countries like Angola, which is one of the poorest states in the region, Mozambique, Zambia and Tanzania is still considerably weak (Maasdorp and Whiteside, 1992: 23).

Although there is a strong appeal for Regional Integration Agreements in Sub-Saharan Africa, most of them have failed. Having the SADC Free Trade Protocol and the Angolan economy as the main units of analysis, it is worth considering whether RIAs (in the form of free trade areas) as a model of development are viable for the continent in general and for Southern Africa in particular. Furthermore, this study will look at the advantages and disadvantages of such an arrangement for the Angolan economy with the intension to find out if the SADC Free Trade Protocol can be used as a vehicle for post-war economic recovery. The research will attempt to show that although many past regional integration schemes in Sub-Saharan Africa have failed, it does not mean that all regional integration agreements in the continent would be unsuccessful. The SADC Free Trade Protocol may impact negatively in the Angolan economy in the short to medium term; however, it may be used as a means to promote economic growth and development in the longer term, as the country becomes more open to international trade as a result of increased foreign direct investment and the implementation of more liberal trade policies.

1.5 Data Gathering Process

For this study a considerable selection of sources have been used. They include journals, books and governmental and non-governmental reports from institutions such as the Southern African Development Community and Angolan government regarding the economic conditions of the country. However it has to be noted that due to war that has been going on in the country for about thirty years data and statistics regarding the economy of the country and the industrial sector in particular is very poor and sometimes very biased what might limit the accuracy and the usefulness of some information that will be considered.

1.6 Levels of Analysis

Given the characteristics of this study, three levels of analysis will be used namely; the international level, the regional level and the national level because they are all important to the discussion. According to Holsti (1972: 17-18), the main characteristics of the external environment are not more important than those of the internal environment. In his point of view therefore, it is possible to employ all three levels of analysis at different occasions depending on the type of the problem being analysed. In order look into the theory of regionalism, to examine the relationship between regionalism and the General Agreement on Tariffs and Trade and to look into the Sub-Saharan African experiences regarding RIAs it is necessary to use the international level of analysis. On the other hand both the regional and the national levels of analysis are required to determine whether the SADC Trade Protocol will be useful as the means for the Angolan economic development.

1.7 Methodology

Due to the descriptive nature of the study, it is proposed that the present investigation be conducted within the qualitative paradigm. Additionally, a case study will be used to evaluate the theory of regional integration arrangements that will be discussed in the second chapter of the study. Bearing in mind that part of this study concentrates on Sub-Saharan Africa the qualitative method will be useful as it will facilitate the conception of explanations and generalisations that are close to the concrete data that will be gathered during the data collection process by using a lower level, less abstract theory which is grounded in concrete details (Neumann, 1997: 420). According to Neumann (1997: 420), it means that new theories may be built to create a realistic picture of what has been studied and stimulate understanding more than to test a causal hypothesis. The construction of theories is important as an attempt to explain phenomena in the world as theories are sets of statements that make explanatory or causal claims about reality (Mouton, 2001: 177). In addition, the inductive method will be used to evaluate the free trade theory as a strategy for the creation of Regional Integration Agreements in the African context by presenting empirical evidence (Neumann, 1997: 334).

1.8 Chapter Outline.

Bearing the above in mind the study will be divided in four chapters. After the introductory chapter that involves the discussion of the problem statement, and gives an overview of the background to the study, chapter two will be devoted to a theoretical discussion on Regional Trade Integration Agreements. To that end several theories of free trade areas will be used. Included in this discussion will be an attempt to define RIAs and the types of formal regional economic arrangements. In addition to that, this part of the paper will also look into the influence of the multilateral trading system on RIAs. In the second part of chapter two, this study will examine the past experiences of other regional integration arrangements in Sub-Saharan Africa; will assess the reasons for failure and the preconditions for successful regional trading arrangements in Africa.

Chapter three will also be divided in two parts. The first one will deal with the political economy of the SADC Free Trade Protocol. This will include a discussion on whether this recent agreement has the potential to bring about economic growth and development to the region. The second part of the chapter will be devoted to the Angolan economy and how it can benefit from regional free trade in a post war environment. As a result of the civil war that has been going on in the country for the last 30 years the economy of the country is in disarray (www.mbedi.co.za/land/ao) and although there are signs at the moment that peace could be attained soon, the war has had a devastating effect on the economy of the country.

The country's oil industry is the key sector of the economy and together with mining contributes about 50 percent to GDP. The output per capita is among the lowest in the world despite the abundance of natural resources and most of the population depend on subsistence farming to survive. Although Angola has not yet joined the agreement, government officials are optimistic that the free trade area will be important in bringing economic growth to the country and have promised to join the free trade area in the near future as the conflict in the country comes to an end (www.infoserve2.ita.doc.gov).

Chapter four of this study will be used to report on the findings of the research and an attempt will be made to provide some recommendations regarding the improvement of the trade environment in the region as well as for the Angolan policy makers. Given the specificities of the country's economic conditions there are economic policies that must be implemented if the country is to effectively benefit from trade in the region in order to bring about economic growth and development.

CHAPTER TWO

The Theory of Regional Integration Agreements and the African Experience

The aim of this chapter is to examine the theory of regional integration agreements and to determine its economic effects on countries affected by these agreements. In addition, and given the fact that these agreements must comply with the WTO rules, it is therefore important to investigate the influence of the multilateral trading system on RIAs; this will follow the theoretical discussion. The second part of the chapter will look at how RIAs work in practice, and to that end it will analyze the experiences of past regional integration arrangements in sub-Saharan Africa.

2.1. The Theory behind International Economic Integration.

Prior to 1942 there are no references to the term "international economic integration", thus making it a fairly new concept. Since then, international economic integration has been associated with almost every facet of international economic relations including trade and monetary relations, capital and labour movements and even international cooperation. The 1950s saw the term "economic integration" used to define the development of individual economies into larger amalgamated economic regions, and it is used today as a generic term together with that of "regional integration" to illustrate this notion (Robson, 1980: 3).

Robson (1980: 3) further states that there are three different levels of economic integration. National integration involves regions inside the boundaries of a nation-state; international or regional integration applies to different nations forming a regional bloc, and worldwide integration is the same phenomenon on a global scale. At each level a further separation may be made between the sectors of the economies in question – for example, of agriculture, industry or energy – and general integration extending across the whole productive activity. This study is concerned with the second, namely regional, level of economic integration. Following a practice popularized by Balassa in 1962 (see Robson 1980: 3), which was inspired by the European experience, regional integration is used to refer only to this specific level of integration.

In studying economic integration on the African continent it is necessary to consider the particular conditions pertaining to Africa, as the example set in Europe was specifically moulded for the circumstances prevalent in the latter region. According to Muthakira (in Asante 1997: 19), "the peculiarity of the characteristics of the African economies and the evolution of political and other institutions make it unrealistic to apply the term in the same sense as used in the developed countries." In other words, discussion of economic or regional integration must take into account the political and economic realities of Africa. Under these circumstances economic integration may be defined as the voluntary partnership of two or more countries in a particular area in order to pursue common policies and objectives in issues relating to economic development so that the coalition is of benefit to all participating countries. One of the main emphases of this definition is that regional integration schemes must be voluntary and that each member state must confirm its willingness to pursue certain policies in agreement with the other states in the region. Secondly, economic integration in Africa needs to have a broad base, to be wide in its application and flexible in its practical form to include social, cultural, political and economic considerations. The use of the term "regional" with reference to Africa points to its sub-regions and not the continent as a whole (Asante, 1997: 20).

Therefore "Regional Integration Agreements" (RIAs) have their origins in the conditions stated above and can be defined as special economic groups formed by countries in a particular geographical area which give member states advantages in trade without compromising non-member states. Trading arrangements, in this sense, involve an element of geographic discrimination because various factors of production are subject to different tariffs depending on the country of origin. Countries become part of these international agreements to boost income and efficiency, thus increasing their welfare gains. As a bloc, they gain better negotiating capacity with third countries while experiencing the benefits of increased regional political cooperation (Gibb, 1999: 22).

Economic blocs of this nature may be seen as a move towards free trade, because participating countries are still in a position to control their production and consumption structure with the added benefit of a more open economy. Preferential trade agreements can result in the loss of a country's grip on its domestic economy since they call for the removal of restrictions on the flow of goods and services. In order to avoid this, therefore, the process of integrating economies usually occurs in gradual stages that ease the transition for domestic economies without threatening the loss of a country's autonomy over economic issues (Appleyard and Field, 1998: 353).

As a result, RIAs can take many forms and go through many stages. For analytical purposes, however, this study will only distinguish the main ones, which are free trade areas, customs unions, common markets and economic unions. A free trade area (FTA) is considered the most common and the lowest level of integration. This kind of integration means that member states remove tariff barriers on intra-regional trade for all goods (or on an agreed subset of goods) while simultaneously setting their own national barriers on trade to non-members (Mshomba, 2000: 176). It has to be noted that when members set their own external tariffs, non-members may find it profitable to export a product to that member which has the lowest tariffs. They can then export the same product to other members of the FTA, which have higher tariffs for the outside world, through this member state.

A provision known as the "rules of origin" is widely used in free-trade agreements as a means of circumventing the use of transshipment as a strategy in the avoidance of direct trade with high-tariff member states (Appleyard and Field, 1998: 355). COMESA's rules of origin require that two conditions be met to allow the qualification of goods in a preferential treatment scheme: firstly, the goods must be imported directly from the member country in which they were produced, and secondly, the exporting state must have used raw materials imported from non-members. To comply fully, the cost, insurance and freight value of the inputs should not add up to more than 60 per cent of the total cost of materials used in production, or the ex-factory value added must at least be 45 per cent. For products considered important for the economic development of members the value-added is 25 per cent (Mshomba, 2000: 176).

Another kind of economic integration is a customs union (CU), which is considered to be the next stage of integration after a free trade area. At this stage of integration, besides removing all tariff barriers to trade among them, member countries also adopt a common external tariff (CET) towards non-members. The group of countries also acts as a body in the negotiation of all trade agreements with third parties. The existence of the common external tariff deals with the problem of transshipment by non-members, thus making the customs union a step to closer economic integration than an FTA (Appleyard and Field 1998: 355). A good example of a customs union is SACU, which has existed since 1910 and was formed as an instrument for the equitable distribution of benefits among its members. In this arrangement, which is one of the most successful in the continent, all goods except agricultural products are traded duty-free (Mshomba, 2000: 177).

A common market is a third form of regional integration, in which there is not only free movement of goods and services and an external common tariff but also free movement of factors of production such as labour, capital and enterprise (Robson, 1998: 1). In Africa, although many of the integration arrangements have a common market as one of their objectives, most of them have not yet reached this stage of integration. According to the Lagos Plan of Action of 1980 from the OAU, an African Common Market was envisaged by the year 2000. However, as experience has shown, and given the economic problems faced by the majority of the countries in the continent, this has proven to be just an illusion, as the set date has lapsed and no African Common Market has been set. Nevertheless there is still hope as The Abuja Treaty has set a new date for the establishment of such a market by 2022 (Mshomba, 2000: 178). In line with the Abuja Treaty, the African Union, which enters into effect in 2002, can be considered a step towards the attainment of that goal, as one of its main objectives is to achieve complete economic integration of the African continent and to transform the whole continent into a free trade area (www.sudmer.com/cen-sad/constitutiveunion.html).

The most comprehensive of the four forms of economic integration is the economic union because it encompasses all the characteristics of the former integration arrangements. In addition in this form of RIA there is also the harmonization of fiscal and monetary policies of the member states (Mshomba, 2000:178). Although separate political entities still exist, an economic union usually establishes a set of supra-national institutions whose decisions are binding on all member states. When an economic union adopts a common currency it becomes a monetary union (Appleyard and Field, 1998: 355). Economic and monetary integration is thus the most advanced form of integration, and besides a common market and a common currency it also involves the harmonization of a range of policies in other areas. However, the debate continues as to how far the operation of an economic union requires fiscal integration in the form of a considerable community budget and the coordination and convergence of national budgetary policies in relation to deficit financing and debt policies (Robson, 1998: 1). The European Union is the best example so far of an economic and monetary union, with the adoption of the euro as the European currency.

From the above it can be seen that arrangements for economic integration involve the acceptance of constraints on national policy-making. The more advanced the integration arrangement, the more constraints are imposed on member countries regarding their economic policies. So far, integration initiatives have been influenced by both political and economic objectives and in many cases there has been a trade-off between the two. In the African context, for instance, SACU is of doubtful economic value to South Africa on its present terms but it has produced considerable political benefits. Although the role of politics as a factor in explaining the current growth of integration arrangements in the global economy can scarcely be overrated, the role of economic theory is to identify and quantify the economic effects and issues in order to provide a basis for the evaluation of the expected economic benefits that provide the motivation for forgoing independence in relation to trade, factor movements and other policy areas (Robson, 1998: 4).

The branch of economic analysis that deals formally with issues relating to the economics of regional integration is of recent origin. The "heart" of the subject is the theory of customs unions that was initiated by Jacob Viner in his pioneering and classic analysis *The Customs Union Issue* (1950), where he introduced the concepts of "trade creation" and "trade diversion." Although these terms were introduced more than fifty years ago, they have been accepted by most political economists and continue to form the basis of the current debate on economic integration. For this reason, these concepts will therefore be examined with more detail (Gibb, 1999: 29).

Economic integration implies different treatment for member countries as opposed to non-member countries. Since this kind of integration has the potential to lead to shifts in the pattern of trade between members and non-members, the net impact on a member country is in general ambiguous and must be judged on the basis of an analysis of each individual country. While integration can be interpreted as a move towards free trade on the part of members of the scheme, it can at the same time lead to the diversion of trade from a lower-cost non-member source, which still faces the external tariffs of the group, to a member country, which no longer faces any tariffs. These static effects of economic integration (meaning that they occur directly on the formation of the integration agreement) are called trade creation and trade diversion (Appleyard and Field, 1998: 356).

According to Viner (in Lyakurwa 1997: 165), the formation of integration agreements such as customs unions should play an important role as to increase intra-regional trade. Nevertheless, the desirability of this outcome from the point of the view either of the members or of the world as a whole would be dependent on the equilibrium between the trade- creation and trade diversion. Trade creation takes place whenever economic integration leads to shifts in product origin from a domestic producer whose resource costs are higher to a member producer whose resource costs are lower. This shift represents a move in the direction of free-trade allocation of resources and is thus

presumably welfare enhancing, as it results in greater domestic consumption and generates additional trade in the process (Appleyard and Field, 1998: 356).
On the other hand, trade diversion takes place whenever there is a shift in product origin from a non-member producer whose resource costs are lower to a member producer whose resource costs are higher. This shift can be interpreted as a move away from free-trade allocation of resources and would thus be welfare reducing, as increased intra-regional trade takes place at the direct expense of lower-cost imports from outside the area of the trading agreement. As a result, there is not a boost in total trade or consumption as in theory, trade-diversion impacts negatively on real income lowering welfare. This takes place as consumers and exporters bear the costs (Gibb, 1999: 29). Bearing in mind that both trade creation and trade diversion can take place simultaneously with economic integration, regional economic integration is considered to be a "second best" if it represents only a partial movement to free trade – "first best" being completely free trade. As a result, whether or not it produces a net benefit to participating countries is an empirical issue (Appleyard and Field, 1998: 356).

Viner's original study of custom unions triggered the development of a vast literature on the theory of economic integration, most of it focusing on its static effects. Lipsey (in Lyakurwa 1997: 165) for instance, is of the opinion that Viner failed to consider the consumption effects of integration arrangements. These effects may in fact make more efficient consumption possible while at the same time enhancing welfare. Due to changes in relative prices at the time of the formation of a RIA, goods can be bought at cheaper prices in some member countries although trade diversion takes place. Therefore, there is less distortion on the pattern of consumption and trade-diverting effects can indeed generate a consumer surplus. This in turn can be important as to offset the increased production costs. Hence, trade diversion can in reality be welfare enhancing by generating more trade and increased national income. Therefore a preferential trading agreement may in Lipsey's opinion be desirable for its members even if it is predominantly trade diverting.

Other authors such as Cooper and Marshal (in Gibb 1999: 31) have employed different approaches for looking at the theory of customs unions. For these authors, small developing countries particularly those in Africa, should view RIAs not as a mechanism for promoting free trade but rather for economic protectionism. These kinds of arrangements should aim at encouraging an "import-competing industrialisation" supported by the liberalisation of trade in goods and a CET. At the foundation of their line of reasoning is the potential for specialisation and the likelihood of increased economies of scale. Although possibly trade diverting, these RIAs among small developing countries, can promote "scale effects" that can lessen the costs incurred due to trade diversion, by means of enlarging the market for suppliers in the regional arrangement.

Additional literature offers a more complex taxonomy of the welfare effects of RIAs. In the context of a more general model, Collier (in Lyakurwa 1997: 166) argues that it is not possible to generalise the simple "Vinerian" concepts of trade creation and trade diversion. To that end he thus proposes a different technique to categorize the welfare effects in a RIA. These are classified in terms of trade effects, "which may be import diverting or export-diverting, substitution effects in production, which may be in the form of intra-export substitution and export-import substitution, and substitution effects in consumption, which can be classified in a corresponding way to the substitution effects in production" (see Lyakurwa, 1997:166). Collier's approach can be considered to better reflect reality as he brings in a more extensive range of effects. Nevertheless, a word of caution must be offered, particularly in the African context, as his theory due to its intricacies, reinforces the unclear conclusions about the appeal of integration arrangements. In Africa for example, due to the lack of data it would be very difficult to quantify the different effects of his theoretical approach empirically.

As an attempt to provide general guidelines on the circumstances that make it more likely for a particular integration scheme to be welfare improving in the static sense, and following Viner's model, Hazelwood (Lyakurwa, 1997: 166) provides an overview of the factors that increase the potential of a RIA to be beneficial to its members. According to him, trade creation is enhanced if there is a wide-raging overlap among member states in those activities, which are the most protected by tariff barriers. Additionally, There should be a significant difference in the cost of production of the goods that are most likely to be protected. On the other hand to minimise trade diversion, the RIA must be composed by a large number of member states and trade among them after the formation of the RIA must be a negligible percentage of their production. Furthermore, there must be a considerable amount of "pre-union trade" among member states and a low CET vis-à-vis the tariffs of member states after the formation of the integration arrangement. The above suggests that customs unions are more likely to be successful among countries that are competitive but potentially complementary.

Besides the static effects of economic integration outlined above, it is likely that the economic structure and performance of member countries might have evolved differently if they had not integrated their economies. The determining factors are the dynamic effects of economic integration, and they include increased competition, increased investment, economies of scale, political and economic leverage and political stability (Appleyard and Field, 1998: 356). These dynamic effects may be felt more gradually, can last longer and in some cases be continued. For example, an increase in the growth rate made possible by integration will have a continued effect if it is sustained. If dynamic effects are present they are likely to dominate static effects (Lyakurwa, 1997: 166).

Economic integration is therefore capable of bringing a number of dynamic effects into play, and to a greater extent than was the situation prior to the formation of the RIA. Economic integration exposes domestic producers to competition from their counterparts in the region, thus leading to more efficiency in the long run. In general terms, the higher the level of integration, the higher the level of competition. Stronger exposure to international competition through larger volumes of exports and imports increases the pressure on the exporting industries as well as on the import-competing sectors to keep costs low, which also provides an incentive for the development of new technologies. For countries with small domestic markets, export production becomes an essential part of achieving economies of scale (Piazolo, 2001: 3).

Economies of scale, a likely impact of economic integration, are directly connected to the growth in market size. A company experiences economies of scale when its long-run average cost of production falls as it produces more, or as more firms enter the industry. Economic integration increases the market for products and inputs, thus allowing firms to increase production. This increase in production allows for more specialization of labour, the use of better equipment and the acquisition of inputs at a discount price – all of which bring forward internal economies of scale. Expanded markets also attract new firms, which may in turn bring external economies of scale by increasing the speed at which new technologies are generated and spread throughout the industry, enhancing the lobbying power of the industry against the government laws and regulations, and by attracting suppliers of inputs to locate in the region (Mshomba, 2000: 179).

Furthermore, economic integration does not take place in a "political vacuum", as it is a political as well as an economic activity in both objectives and procedures. Economic integration and political stability support one another, as a successful integration arrangement (even if economic in nature) will tend to bring about political stability in the region. Similarly, political stability enhances integration. In addition to political stability, economic integration also leads to political and economic leverage. As multilateral negotiations rarely reflect democratic equality in the sense of one country–one vote, in a RIA, countries can speak as a group with other countries or regions and thus increase their leverage in such negotiations (Mshomba, 2000: 180).

Because of the supposed benefits of regional integration, the world has witnessed a growth in economic regional integration. This has occurred as countries attempt to manage their economies effectively, which they have failed to do at the multilateral level. Owing to the fact that the multilateral trading system has influenced regional trading arrangements, the next part of the paper will look at how this influence has taken place, and to what extent. To that end, this paper will first provide a brief history of the post-war trading system with a view to highlighting the implications of the rules and regulations of international trade on regional trade agreements.

2.2 The Multilateral Trading System and Regional Integration Agreements.

The post-war trading system was instituted at the Bretton Woods Conference in 1944, which established the institutional framework for the present economic order. The Bretton Woods scheme aimed at achieving macroeconomic stability, which was regarded as an imperative for an efficient multilateral trading system enabling for the implementation of more liberal trade policies. The institutional infrastructure of the Bretton Woods system, was set up with international organisations such as the IMF, the World Bank and the International Trade Organisation (ITO) as the foundations, with the aim of establishing a stable international economic system. Under the auspices of the United Nations, more than fifty countries worked on a draft charter for the ITO, which included provisions on employment, international investment, services and commodity agreements (Gibb, 1999: 8).

The negotiations to establish the ITO proved difficult and ultimately unsuccessful, with a particular source of conflict being the uncertainties about the validity of the most-favoured-nation principle, multilateralism and preferential treatment. As negotiations were taking too long, the participants recognised that it was necessary to reduce tariff barriers to a certain extent immediately. Consequently, it was recommended by the United States that the provision about the commercial policy of the Draft ITO Agreement should be incorporated in a General Agreement on Tariffs and Trade as a provisional measure (Gibb, 1999: 9). This attempt to create a liberal international trade order resulted in the signing of the Charter of the General Agreement on Tariffs and Trade (GATT) by 23 countries in 1947. GATT was thus formed from parts of the ITO with minimal institutional arrangements in order to speed up its approval. The arrangement was supposed to be temporary as its functions were to be assumed by the ITO. However, the ITO never came into existence because the United States Congress refused to ratify it (Mshomba, 2000: 57).

In the Preamble of the Charter of the GATT, the signatories expressed their desire to raise the standard of living, ensure full employment and gradual growth in the volume of real income and effective demand, develop the full use of the world's resources and expand the production of goods. Member states should do it by entering into reciprocal and mutually beneficial agreements aiming at extensive reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade (Morton and Tulloch, 1977: 53). The prevention of protectionist policies and the creation of the conditions to liberalise trade would be partly achieved by holding a series of multilateral talks or negotiations (the GATT rounds) where countries would agree to reduce their trading barriers in order to have extended access to other markets. As a result, major cuts in tariff and non-tariff barriers took place, fact that has played an important role for increased global trade (Loxley, 1997: 8).

In 1948, the year of the first round of negotiations, tariffs averaged 40 per cent. The procedures adopted by GATT for negotiating multilateral tariff reductions saw that number fall to 5 per cent in 1987. After the Tokyo Round which took place between 1974 and 1979 average tariffs on manufactured goods were 4.9 per cent in the United States of America, 5.4 per cent in Japan and 6 per cent in the then European Community. This reduction in tariffs was accompanied by an extraordinary growth of free trade and income that favoured particularly the developed countries. Between 1946 and 1985, the volume of world trade increased nine fold and trade grew more rapidly than world output and income (Gibb, 1999: 13).

It was in one of the GATT rounds, the Uruguay Round in 1995, that the World Trade Organisation was created as the legal institutional foundation of the multilateral trading system. Contrary to what happens with the WTO, which is a fully-fledged organisation, the GATT was a multilateral trade agreement that set the rules of conduct in the field of international trade (Morton and Tulloch, 1977: 55). Consequently, it was not prepared to successfully address problems regarding the non-compliance of the regulations of the agreement by many countries, as it did not have a functional dispute settlement mechanism with an enforcement system (Nicolaides, 1994: 234).

The WTO is thus the only institution that deals with international rules of trade among and between nations. One of the main aims of this organisation is to make sure that international trade "flows in the freest manner possible", if there are no side effects. It means the continuation of what GATT did concerning the removal of obstacles to trade and the ensuring that the trade rules are transparent and predictable. The agreements of the organisation are negotiated by the bulk of the trading partners of the world and then ratified in their parliaments. These agreements constitute the rules of international commerce that all the countries that are part to agreement must comply with. The key functions of the organisation are to administer WTO trade agreements, act as a forum for trade negotiations, solve trade disputes, oversee national trade policies, provide technical assistance and training for developing countries and cooperate with other international institutions in matters regarding global economic policy formulation (www.wto.org/english/thewto).

The basic principle of the WTO and its predecessor, GATT is non-discrimination commonly called the most-favoured nation (MFN) clause. This principle means that any advantage or privileged treatment (e.g. by lowering tariffs) given by any of the countries involved in the agreement to another country's goods would have to be given to all other countries. According to the principle, a member country must therefore treat all other members in the same manner regarding tariff policy (Mshomba, 2000: 59). Despite the fact that the WTO is a multilateral trading system and the non-discrimination principle is central to its functioning, Article XXIV of the Charter allows contracting parties to establish preferential trade agreements what constitutes an exception to the MFN principle. Therefore, although RIAs are discriminatory in nature, they are WTO consistent. Nevertheless, there are certain rules that must be complied with so that these arrangements can be legally implemented (Finger, 1992: 131).

Given the fact that RIAs had been part of the international economic system for a considerable period of time, and would probably continue to exist, there was a strong support for the inclusion in GATT of provisions for regional arrangements. As an example, at the time the Agreement was negotiated, Belgium and the Netherlands were considering forming a CU and there were statements particularly from developing countries' delegates explaining the usefulness of such arrangements for development purposes mainly among those countries were the market was too small to allow for the development of industry (Finger, 1992: 130).

As a result, the General Agreement allows for regional trading blocs as an exception of the MFN principle on the condition that certain rules stipulated by Article XXIV of the Charter are met (Gibb, 1999: 16).

1. Regarding CUs, (the same criteria are applied to FTAs) "duties and other regulations of commerce imposed at the institution of any such union… shall not on the whole be higher or more restrictive that the general incidence of duties… prior to the formation of the union." (paragraph 5)
2. Additionally, the Agreement stipulates that "duties and other restrictive regulations of commerce are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade (92%) in products originating in such territories." (paragraph 8)
3. Interim agreements to form CUs or FTAs "shall include a plan for the formation of such an area within a reasonable length of time usually from ten to twelve years" (paragraph 5c)

According to Finger (1992: 130), the negative aspect regarding the acceptance by GATT of regional agreements was that allowance for RIAs would constitute an exception to the MFN principle. At a practical level, countries like the United States, perceived the MFN obligation as an important instrument to force the end of "metropole-colony preferential arrangements." At a more abstract level, the MFN obligation played an important role in taming the mercantilist dynamics on which GATT was built into a liberal international economic system. In Finger's (1992: 130) opinion, it has to be noted as well, that although MFN principle is important to assure that the benefits of reducing old restriction are shared by all it is also a critical discipline on countries' creating new ones. For instance a country will be much more hesitant if its trade restrictions have to be applied to goods imported from all other countries, and thus stir up the threat of retaliation from all of them. Without the MFN constraint, the restricting country could "pick off" the more dynamic exporters making allies rather than enemies of other exporters. For short-term and long-term considerations it was therefore important that stipulations authorizing regional arrangements should not provide a means for fragmenting the international trading system.

Consequently Article XXIV of GATT has been much criticized for allowing violations of the MFN clause by sanctioning discriminatory behavior. According to Gibb (1999: 16), the conditions established by the Agreement for the formation of RIAs are very much open to interpretation. In his words, "perhaps the most important qualification, that trade barriers remaining against non-member states are not more restrictive than those previously in effect, is dependent on the ambiguous phrasing *"shall not on the whole be any higher,"* as the fist condition stipulates. As indicated by Gibb (1999:16), there are many different ways to calculate and interpret tariffs before and after the creation of a RIA. Tariffs weighted to the population size of a given country, can be calculated individually, collectively or as a discrete item. If for instance a CU increases tariffs imposed against non-members manufactured imports but reduces them on agriculture and coal, tariff levels cannot be considered to be lower *"on the whole."* Furthermore, there is the potential for RIAs, while conforming to GATT, hinder multilateral agreements and trade liberalization as higher tariff barriers are imposed on non-member countries (Gibb, 1999: 17).

The second requirement for the establishment of RIAs imposed by the GATT is not less ambiguous than the first one. It stipulates that regional agreements should eliminate tariffs on *"substantially all trade"* among members. As said by Gibb (1999: 17), there is enough scope in this rule for the member states to avoid forming a 100 per cent tariff-free RIA as *"substantially all trade"* offers much room for interpretation. If for instance, 100 per cent tariff reduction is implemented on 70 per cent of all trade excluding the strategic and more important sectors it cannot be said that the tariff cuts represent *"substantially all trade"* due to the fact that the strategic sectors were untouched by the tariffs reduction. On the other hand, Gibb asks (1999: 17), if a 70 per cent cut in tariffs on 100 per cent of the trade carried out by the country although different from what Article XXIV stipulates cannot be accepted as meeting the basic requirements of this condition.

It has to be noted though, that provisions for RIAs are an exception not to the GATT rule to reduce trade barriers but to the principle that barriers should be non-discriminatory. Article XXIV provides that import restrictions may be discriminatory only when there is "big time discrimination." The members of a RIA who discriminate in favor of one another must eliminate and not just reduce *all* restriction on *"substantially all trade"* in the arrangement. The rationale for allowing only "big time discrimination," is to avoid discrimination to be used as an instrument for everyday commercial policy, which would restrain the maintenance of a liberal trading system (Finger, 1992: 134). The basic argument for the convergence between the objectives and practice of multilateral and regional trade policy initiatives is that the complete elimination of trade barriers even on a regional discriminatory basis can be useful as to promote more open trade and investment. RIAs may thus provide the most practical method to multilateral free trade and therefore support GATT and WTO's ultimate aim (Gibb, 1999: 17).

The evidence indicates that in reality, the GATT and the WTO have failed in their attempt to control the nature and behavior of regionalism. Many RIAs while not raising barriers to external trade with the rest of the world, have clearly failed to create a 100 per cent tariff-free trading area. Article XXIV of the GATT is therefore usually criticized for not being able to manage at the same time the growth of regional trading arrangements and to promote multilateralism. According to Patterson (in Gibb, 1999: 17), from all the GATT's articles, this one is the most abused and the least noted, as states creating new RIAs do not fear to be found guilty by any GATT body, of any irregularities regarding their international obligations. He argues further that the effective destruction of the article as a serious restraint on RIAs started when the then European Community was examined.

The failings of the GATT and its lack of competence to influence effectively the behavior of a well-organized world economic system have partly been responsible for the revival of economic integration agreements in the 1980s and 1990s (Gibb, 1999:17), a trend from which Sub-Saharan Africa is no exception. Consequently, by providing a review of African past experiences regarding RIAs, the next part of this paper will look at regional integration agreements in the African context in order to evaluate how useful can these arrangements be to promote economic development as African countries find it increasingly difficult to manage their economies at the multilateral level.

2.3 Regional Integration Experiences in Sub-Saharan Africa.

Regional Integration Agreements became a major political issue in Africa in the 1960s, after the wave of independence that took place in the continent. As a result two schools of thought were born, namely the continentalists and the functionalists, both of which have left their marks until today. The continentalists were in favor of an African Union the so-called United States of Africa while the functionalists' aim was to promote a less ambitious concept of sub-regional cooperation. Although the latter's intention is the only one which materialized, the pan-African approach is still alive today as the call for an African Renaissance has suggested. The Lagos Plan of Action and its update, the Abuja Agreement of 1991 provide a mixture of both approaches given the fact that they envisage the creation of an African Union which will come into force in July 2002 (Hoff, 2001: 1).

Along the lines of the Abuja Treaty, the main objective of the African Union is to achieve complete political, social, cultural and economic integration of the African continent and to transform the whole continent into a Common Market, with for example, common external tariffs as well as strong economic linkages in such key sectors as agriculture, trade, finance, transport, communications, industry and energy. In addition, the African Union intends to use the existing sub-regional economic groupings on the continent such as the Southern African Development Community (SADC), among others, as its building blocks (www.sudmer.com/cen-sad/constitutiveunion.html). This task will be facilitated by the New Partnership for African Development (NEPAD), which also aims at accelerating the pace of regional integration in the continent so that it can effectively participate in the global economy (www.africanrecovery.org/documents.pdf).

Therefore, in the past three decades several RIAs have been adopted by every country in Sub-Saharan Africa (SSA). The aims of these schemes have ranged from limited cooperation among neighboring countries in specific areas to the formation of an African Common Market (Foroutan, 1992: 234). According to Mshomba (2000:181), there are at least twelve regional groupings in SSA with some groups being subsets of others. The largest RIAs in SSA in terms of membership are COMESA, and SADC in eastern and southern Africa, ECOWAS in western Africa and the Economic Community of Central African States (ECCAS) in central Africa. Other regional groupings in the continent include the Economic Community of the Great Lakes Countries (CEPGL), the Intergovernmental Authority on Development (IGAD), the Economic Community of West Africa (CEAO), the Eastern African Community (EAC), the Customs and Economic Union of Central Africa (UDEAC) and SACU (Mshomba, 2000: 182). Due to space constraints, this study will therefore deal briefly with the experiences regarding some of these regional schemes in west, central, east and southern Africa, with the aim to summarize their basic characteristics and trade pattern with a view to enumerate the objectives of RIAs in SSA and assess their achievements.

There are three main regional groupings in West Africa namely, ECOWAS, CEAO and the Mano River Union (MRU) (Lyakurwa, 1997: 180). CEAO can be considered as being the third attempt by the West African states that were part of the French Western Africa to keep the arrangements for monetary and economic cooperation, which were established at the time of colonial rule. The member states have thus preserved their monetary union and economic ties, by joining the CFA Franc Zone, which was fueled by

French desires to maintain its influence in the region and curb the growing power of Nigeria. The organization was established in 1973 and became effective in 1974 comprising seven members: Burkina Faso, Côte D'Ivoire, Mali Mauritania, Niger, Senegal and Benin, which joined in 1984(Foroutan, 1992: 244). The exchange rate between the CFA franc and the French Fran remained fixed from 1948 to 1994, when 50 per cent devaluation against the French franc took place in the entire zone, ending and era of exchange rate stability which was an important element in the ability of CFA countries to fight inflation and was made possible by the imposition of severe restrictions on governments' ability to print money to finance their deficits, while currency convertibility was made possible by the provision of a virtually limitless line of credit by French treasury (Gunning, 2001:29).

All the states belonging to the organization are also members of ECOWAS. The CEAO has a population of approximately 53 million and a per capita income of U$D 462. Although this per capita income is considered to be above the Sub-Saharan average, Côte D'Ivoire and Senegal dominate the economy of the RIA, which together make up 56 per cent of regional GDP representing the relative industrialized poles of the group. The CEAO started out with the objective of becoming a free trade area aiming at a CU through the reduction of trade barriers, free movement of factors of production and the establishment of a CET. However, trade liberalization has been slow and the existence of quantitative restrictions and the protectionist policies from the least developed members of the RIA have played a role for the slow growth in intra-regional trade. As a result, intra-regional exports have been stagnant at about 7 per cent of total exports. The regional share of world trade is also negligible and what is worse is that it has been declining over the past few years (Lyakurwa, 1997: 181).

Since the economic imbalances among the members of the regional trading arrangement has been the major cause of the termination of past integration initiatives, the Treaty of Abidjan which established CEAO, sets specific measures to reduce such imbalances in order to assist the economic development of the least developed countries of the group. The Community Development Fund was created to compensate members for the loss revenues arising from tariff reductions. Additionally a Solidarity Fund, financed mainly by Côte D'Ivoire and Senegal was established to finance development projects in those regions with the most problems (Foroutan, 1992: 244). According to Foroutan (1992: 244), these measures have had some success in the promotion of intra-regional trade and factor mobility both of which are high compared to SSA standards. Nevertheless trade in goods and services is not free from restrictions and a common external tariff has thus far not been formulated.

The Mano River Union (MRU) was formed in 1973. Initially its membership encompassed Liberia and Sierra Leone but Guinea joined the group in 1980. All these countries are also members of ECOWAS and the region has been devastated by political instability in recent years. Intra-regional trade is low due to the existence of non-tariff and tariff equivalent barriers to regional trade, political instability and the fact that the economies of the member states are non-complementary. The group was formed to promote cooperation and increased intra-regional trade. Although in theory trade among the member states is tariff-free and a CU has been established intra-regional trade and the share of the regional trade in world trade is insignificant. According to Lyakurwa (1997: 185), MRU has no future because among other factors the countries are too small and competitive in their trade with the north to establish a RIA.

The regional integration arrangements in central Africa are UDEAC, CEPGL and ECCAS. UDEAC was established in 1973 and its membership includes Cameroon, the Central African Republic, Chad, Congo, Gabon and Equatorial Guinea. The grouping is dominated by Cameroon, which accounts for 48 per cent of the population and 51 per cent of GDP of the region. The Customs and Economic Union of Central Africa (UDEAC), was formed with the aims to facilitate free trade and free movement of factors of production. As a customs union there was the intent to formulate a CET and maintain a monetary union, which has existed since 1948. However, intra-regional trade has not increased and indeed intra-regional trade shares have been declining since the formation of the RIA due to the existence of several trade barriers and the free movement of capital has not been sufficient to generate increased trade flows. The elimination of the CET in

1974 means that the RIA was unable to develop into a CU regardless of its name. Another problem faced by the group is that disparity in income per capita among the members has been a source of potential polarization in the region (Lyakurwa, 1992: 188).

The region encompassing eastern and southern Africa has the largest population and the highest number of regional agreements. The existing groupings include COMESA, SADC, SACU, and the revival of the East African Community (EAC) is being seriously considered (Lyakurwa, 1992: 188). In this section of the chapter, the experiences of EAC, particularly the reasons for the failure will be briefly reviewed to provide lessons for existing RIAs in the continent. Additionally SACU as one of the only relatively successful schemes will also be reviewed.

The East African countries of Kenya, Tanzania and Uganda established the East African Community (EAC) in 1967. The EAC was aimed at a considerable amount of integration as the Treaty for the East Africa Cooperation created an East African Common Market (EACM) with a common external tariff, free trade among members, the harmonization of fiscal and monetary policies, fixed exchanges rates and coordination of development planning efforts (Appleyard and Field, 1998:363). As said by Lyakurwa (1997:190), the EAC was the second oldest RIA in SSA and one of the most advanced CUs among less developed countries. It started as a currency board in 1919 and was later reestablished as the East African High Commission. This organization had legislative and administrative bodies, which coordinated policies and activities in the region on behalf of the British government. The Commission was restructured in 1961 and renamed the East African Common Services Organization (Lyakurwa, 1997: 190).

It was thought that with the independence of the countries that form part of the EAC in the early 1960s, the Community of sovereign countries had great possibilities to succeed. However, the bright promise soon faded as it became evident that the gains from the regional arrangement were being unevenly distributed. Kenya, the most industrialized country of the group, grew more rapidly than the other two members. Its annual real GDP growth was 7.5 per cent from 1976 to 1977 while Tanzania's was 6.3 percent and

Uganda's 2 per cent. Additionally new firms located in Kenya because of its better industrial base. Furthermore, the funds from the East African Development Bank were also unequally distributed towards Kenya in comparison with the planned distribution. Trade diversion towards Kenya's products meant that Tanzania and Uganda were potentially losing from the arrangement as a considerable amount of tariff revenue was given up (Appleyard and Field, 1998: 363).

Together with the economic problems above, there were ideological and political issues that led to the collapse of the Community in 1977 after several years of destructive events such as the expulsion of each other's citizens and the imposition of exchange and import controls (Appleyard and Field, 1998: 363). Nevertheless the East African countries are at the moment negotiating to revive the EAC. It has to be noted that the proposed RIA has one of the lowest income per capita incomes of SSA and the three countries account for about 14 per cent of SSA population and 7 per cent of trade in the continent (Lyakurwa, 1997: 190).

The Southern African Customs Union (SACU), is the oldest RIA in Sub-Saharan Africa, its membership includes Botswana, Lesotho, Namibia, Swaziland and South Africa. All the members of the union also belong to the Common Monetary Area with the exception of Botswana. Besides being the oldest RIA, SACU is also the richest scheme in SSA with an income per capita of about U$D 2414. This regional trading arrangement is dominated by South Africa, which accounts for 88 per cent of the union's population and 93 per cent of its GNP (Lyakurwa, 1997: 189). The existing SACU agreement was signed in 1969 and revised in 1976. This agreement is being renegotiated at the moment as both parties, South Africa and the BNLS countries (Botswana, Namibia, Lesotho and Swaziland) are not happy with the allocation of the common revenue pool, the lack of equality in decision making and the alleged negative impact on industrial development in BNLS countries (Hoff, 2001:13).

The 1969 agreement envisaged a revenue-sharing formula that was intended to compensate BNLS countries for trade diversion and polarization of industrial development in favor of South Africa that accompanied the country's import substitution policies and for the loss of fiscal sovereignty, which made it difficult for BNLS to use fiscal policy to support their social policies. In addition to that there was also a provision to enable BNLS to develop industries and diversify their economies. The revenue formula of the 1969 agreement provided the smaller countries with a basic rate of duty approximately equivalent to the product of an "iso-price" tariff (that is, tariff revenue equivalent to what they could have raised by imposing their own tariffs while leaving prices unchanged), so that the cost of trade diversion was in effect offset by this element. This basic rate was enhanced by a factor of 42 per cent, which can be considered as compensation for the cost incurred by smaller countries due to the industrial polarization in South Africa and for their loss of fiscal discretion in relation to the main sources of their public revenues (Robson, 1998: 276).

Almost no use was made of the provisions intended to enable BNLS countries to promote their industrial development by protecting their infant industry. As a result, according to Robson (1998: 276), the limited industrial development that has taken place in the BNLS countries since 1969 has been stimulated by the comparative advantage that these countries possess regarding labor costs; the effect of sanctions on South Africa; and by their access to EU markets provided by the Lomé Convention. Furthermore, empirical evidence suggests that few if any significant new industries set up in the BNLS countries could rely on unrestricted access to what is nominally a single market without safeguards. The smaller countries will without a doubt seek such safeguards in any revised agreement. Additionally, it must be expected that the price demanded by South Africa will be a less generous revenue formula. Nevertheless, SACU can be considered a success history in relation to the other integration initiatives in the continent. This is the case, because the regional grouping is dominated by one of its members, namely South Africa, with a strong economic and political will in making it work; because the permeability of borders places a premium on CUs for all members, including the smaller ones which might otherwise find it difficult to collect independent tariff revenues; and because a centralized system of administering customs and sales tax made it possible to reduce fiscal borders and therefore to operate the area as a single market. Besides, the enhancement factor, which represents a considerable transfer of income to the smaller countries of the integration agreement, has been a very important source of benefits to them (Robson, 1998: 276).

This section of the paper has attempted to examine the most significant regional trading arrangements in SSA. As shown above, despite the existence of several multilateral institutions, treaties, protocols and resolutions, none of the agreements with the exception of SACU has achieved a considerable degree of integration in their goods markets, their most important goal. This indication is provided by the small share of intra-regional trade in total trade and by the fact that in many cases intra-regional trade share has been stagnant for over a significant period of time in many of the groupings. Consequently, according to Foroutan (1992: 251-252), if intra-regional trade as a proportion of total trade is a reliable indicator of trade integration, it can be concluded that trade integration in SSA has failed so far. The next part of this paper will therefore be devoted to an examination of those reasons that seem to be relevant to explain the failure of past African experiences concerning RIAs.

2.4 Deficiencies of Regional Integration Arrangements in Sub-Saharan Africa.

As indicated by Fine and Yeo (1997: 434), various studies have noted the absence in Africa of conditions conducive to successful economic integration. These include a high level of intra-regional trade prior to the formation of the RIA, complementarities in goods and factors among members and a potential for product differentiation for instance through differences in per capita income and hence consumption patterns. Together with these conditions, other impediments for successful regional integration in SSA have also been pointed out. These comprise the lack of transparency and predictability, especially in terms of non-tariff barriers and bureaucratic impediments; very high government reliance on trade-related revenues and the absence of well-managed mechanisms that could promote an equal distribution of benefits among member states. Even if these impediments could be overcome, the import substitution strategies that were being followed by most of the countries in these regional groupings when combined with the rent seeking activities at the national level would lead to increasing inefficiencies resulting from trade diversion over the medium and longer term (Fine and Yeo, 1997: 434).

According to Hoff (2001: 2), one of the main deficiencies of RIAs in SSA is that production structures of member states are usually competitive and not complementary. As a result there is a lack of tradable goods for intra-regional trade. In a stylized non-industrialized economy, a domestic sector of non-tradable goods coexists with a dominant commodity sector whose main activity is the export of raw materials. In this type of economies, the manufactured sector tends to be weak and not competitive and therefore unable to boost regional exports. For economies with these characteristics to effectively integrate demand-side measures such as the reduction of tariffs are necessary but not sufficient adjustments.

Signing a treaty to reduce or remove barriers does not have any considerable effects on intra-regional trade if the members do not demand on each other's export goods. The result of integration then would be indirect and related to the new level of protection of the group vis-à-vis the rest of the world compared to the level of protection before the formation of the integration agreement in each member state. Ignoring this effect and taking into account intra-industry trade, in a two good model, trade integration will have the normal trade-creation and trade diversion effects when the members of the prospective RIA each have a comparative advantage in the production and export of a different good while both goods are consumed by all countries (Foroutan, 1992: 252). According to Foroutan (1992: 252), this difference in the factor endowments of each member state makes it possible for them to be "natural trading partners."

On the other hand, two countries in a RIA could indeed have similar factor endowments and trade with each other but only if there is the possibility of product differentiation and intra-industry trade is allowed, in this case trade would therefore be of an intra-industrial nature. Trade integration among Sub-Saharan African countries can be effective if they satisfy the conditions for intra or inter-industry trade. However, if these conditions are not satisfied, the limited extend of intra-industry trade in the continent cannot be attributed to the failure of RIAs but rather to their ineffectiveness (Foroutan, 1992: 252). Another deficiency of regional trading schemes in Sub-Saharan Africa is that in most cases intra-regional trade liberalization was practically unsuccessful. This happened due to the import substitution strategies that were being followed by the majority of the countries in SSA, the risk of unequal distribution of benefits and the fact that in most cases tariff reductions caused public revenue losses (Hoff, 2001: 1).

The first formal moves towards regional integration in Sub-Saharan Africa, took place right after the wave of independences that swept the continent. At the time, contemporary thinking, which advocated development through rapid industrialization based on import-substitution, influenced Africa's struggle for independence against colonial rule. This line of thinking, considered the international trading system then experiencing its post-war boom, as inherently distorted to benefit the most developed nations of the North in detriment of the less developed nations of the South through the unfair exchange of commodities, fact that could lead to the perpetual economic dependency of the nations of the South. This suspicion of international markets extended to the African domestic economies and was reflected in the strong belief that the state should play the dominant role in managing economic activities (Fine and Yeo, 1997: 432). As a result, the import-substitution policies imposed by the Sub-Saharan states led to the creation of inefficient industries, protected by high tariff and non-tariff barriers and overvalued exchange rates that would make it possible for the prices of intermediary and capital goods to be kept artificially low. Given the fact that devaluation was resisted due to its potential short-term inflationary effects, intra-regional trade liberalization became less feasible as an objective (Foroutan, 1992: 254).

Lowering or entirely dismantling tariffs affects customs revenues and constitutes an immediate effect of establishing an integration arrangement. Considering the high share of customs duties in public revenues that for many African countries ranges from 50 to more than 70 per cent, the reduction or the complete elimination of tariffs can have a quite severe consequence for public revenues. This makes states reluctant to reduce tariff barriers (Hoof, 2001:2). Regarding the unequal distribution of integration benefits, even if there is no uncertainty about the overall generation of net economic benefits through regional integration, there are usually justifiable concerns that gains are more likely to accrue to the most industrialized countries of the regional integration agreement. These countries are clearly in an advantageous position to get hold of the majority of the opportunities through the export of products, services and factors of production. Additionally these countries are generally more prepared in terms of infrastructures, fact that can play a role for the establishment of new industries. If not contained and directed by regional policies, spatial polarization and biased industrialization patterns can take place from unregulated market processes. As shown by what happened with the East African Community, where polarized development was in favor of Kenya in detriment of Tanzania and Uganda, this is a very serious issue that can in fact lead to the collapse of integration arrangements (Hoff: 2001: 2).

African leaders have always accepted regional integration as an important strategy for development even before the Lagos Plan of Action. The approach followed in earlier attempts (with some exceptions such as SADCC) was trade-led, market-based and incremental with integration agreements progressing through the formation of free trade areas, followed by a customs union, a common market and eventually an economic union (Hoff: 2001: 3). However as this chapter has attempted to show, most of the Sub-Saharan experiences due to the problems highlighted above were in many instances unable to reach even the first level of integration successfully, that of a free trade area.

The most important question therefore, is whether the "Vinerian" approach per se can be used in the African context given the structural problems of African economies that involve among others a weak industrial base; high reliance by governments on tariffs as a source of public revenues; scarcity of foreign currency that has hindered the operations of clearing houses and solidarity funds in a number of regional arrangements and the considerable differences regarding most of the economic fundamentals (Hoff, 2001: 4). Against this background, the next chapter of this paper will look into the dynamics of the

Southern Africa Development Community Free Trade Protocol (SADC FTP) and the Angolan economy with the intent to assess how useful will this free trade agreement be for the economic development of the country.

CHAPTER THREE

The SADC Free Trade Protocol and the Angolan Post-War Economic Recovery

The aim of this chapter is to look at the political economy of the SADC Free Trade Protocol and discuss whether this recent agreement has the potential to bring about economic growth and development to the region. As a result this chapter will firstly provide a brief historical synopsis of the regional arrangement from the time of its inception to the 1992 Treaty that created the Southern African Development Community (SADC). This will be followed by an overview of the SADC FTP. The second part of the chapter will be devoted to the analysis of the Angolan economy in order to explore whether or not the Angolan economy could benefit from regional free trade in a post war environment.

3.1 The Southern Africa Development Community: Origins, Objectives and Institutional Framework.

Originally known as the Southern African Development Coordination Conference, (SADCC), the organisation was established in Lusaka, Zambia on the 1st of April 1980 following the adoption of the Lusaka Declaration. Contrary to what happened to the majority of the RIAs in the rest of the continent, SADCC was not formed as an integration scheme. The aims of the organisation were mainly geared towards supporting the Front Line States (FLS) with a view to strengthening their ability to rebuild an economic structure that would lessen their growing dependence on apartheid South African resources. As a result, the founding members of the SADCC agreed that priority should be given to infrastructural projects, with particular emphases on to key areas such as transport and communication.

This emphasis somewhat changed later to the coordination of sectoral plans and to measures aiming at promoting production and investment. Consequently, SADCC adopted a functional cooperation type of approach with each of the member states being responsible for one sector of cooperation. However, according to Hoff (2001: 4) no attempts were made to create a common economic region or to harmonize economic policies (Hoff, 2001:4).

Due to changes taking place in the international arena such as the demise of communism and in the regional arena such as the end of the apartheid regime in South Africa, in 1992, the organisation transformed from a project coordinating body into a regional integration scheme with objectives that include: "achieving development and economic growth alleviating poverty, enhancing the standard and the quality of life of the people of southern Africa and supporting the socially disadvantaged; promoting and defending peace and security; promoting self-sustaining development on the basis of collective self-reliance, and the interdependence of member states; promoting and maximising productive employment and the utilisation of resources in the region; achieve sustainable utilisation of natural resources and effective protection of the environment; and strengthening and consolidating the long standing historical, social and cultural affinities and links among the people of the region." (Tekere and Rusare, 2001: 1).

Based on the SADC Treaty and Theme Document "Towards Economic Integration," the Southern African Development Community evolved from the SADCC. This move towards regional integration reflects the prospects of friendly and cooperative relationships with South Africa under majority rule. The accession of South Africa to the organisation in 1994 opened up new opportunities for integration with a view to creating a strong, competitive economic region. The Southern Africa Development Community consists of fourteen countries namely, Angola, Botswana, the Democratic Republic of

Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (Hoff, 2001: 6).

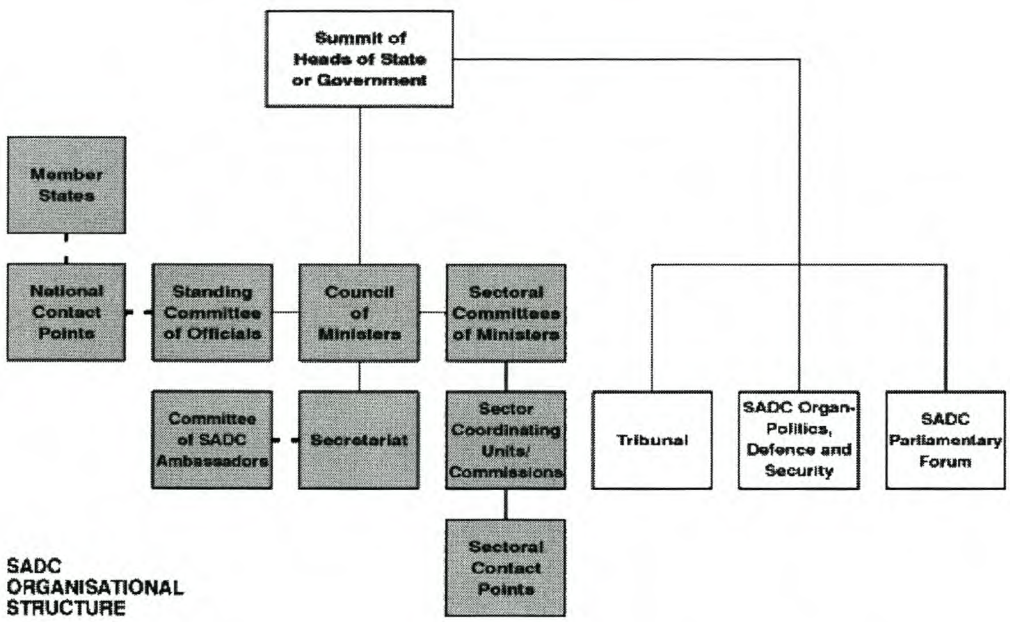

Figure 1

Source: Official SADC Trade, Industry and Investment Review (1997:9)

As shown in Figure 1 above, the current organisational structure of SADC consists of the Summit of the Heads of State or Government that is the ultimate policy making institution of the organisation and is responsible for the overall policy direction and control of functions of the Community and the Council of Ministers which is composed by Ministers from each members state responsible for their country's economic planning or finance. Apart from being the institution that is responsible for the supervision of the functioning and development of SADC it also must make sure that the policies are properly implemented. The Council advises the Summit on policy issues as well as approves the organisation's policies, strategies and work programs. One of the main tasks of the Council is to decide about sectoral areas of cooperation and the allocation of responsibility for carrying out these sectoral activities (SADC, 1997: 7)

It is of course important to consider the organisational structure, which comes under the Sectoral Committees and Commissions. This was established by SADC with one specific aim, to guide and coordinate regional policies and programmes in specific areas. However, different sectors are allocated to individual member states to coordinate and provide leadership. For example, in the Standing Committee of Officials, a Permanent Secretary or an official of equivalent position must represent each country (similar to what happens in the Council) the official must come from a Ministry responsible for economic planning or finance. The Standing Committee acts as a technical advisory committee to the Council to whom it also reports (SADC, 1997: 7). The National Contact Points are positioned in the Ministry responsible for SADC issues and act as a very important link between other agencies of government and the SADC organs. This organ is also responsible for maintaining regular consultation with and briefings of significant government institutions and media on matters relating to the organisation (SADC, 1997:6).

The Sectoral Contact Points are "the grassroots level in the SADC organisational structure." It means that all the ministries with responsibilities for SADC's sectors constitute the Sectoral Contact Points and work directly with the respective Sector Coordinating Units (SCU). The main functions are to prepare sectoral policies and strategies and to formulate proposals for projects. In addition the SCUs provide for the allocation of sectoral responsibilities to each member state and are part and parcel of national administrations, which are supposed to provide for the necessary resources. The Secretariat is the main executive organ of the Community and as such is responsible for the strategic planning and the management of the organisation's programs. One of its main tasks is to implement the decisions made by the Summit and the Council. This institution is chaired by the Executive Secretary, who is appointed by the Summit. Additionally, A Tribunal has been constituted to ensure adherence and to ensure the proper interpretation of the provisions of the Treaty and subsidiary instruments and to adjudicate upon such disputes as may be referred to it. Decisions of the Tribunal are final and binding (SADC, 1997:6).

Up until 2001, the sector responsibilities within SADC have been as follows: to Angola it was allocated the Energy Commission; In terms of agriculture, Botswana was in charge of a number of concerns, for example: agricultural research, livestock production and animal disease control. Lesotho held overall responsibility for all aspects of environmental control. Malawi took responsibility for inland fisheries forestry and wildlife while Mauritius was responsible for tourism. In conclusion Mozambique was responsible for culture, information, sport and transport and communications; Namibia was allocated the marine fisheries and resources and legal affairs; South Africa is in charge of finance, investment and health; Swaziland was responsible for human resources development, Tanzania for trade and industry; Zambia for employment labour and mining; and Zimbabwe for agriculture and natural resources. It has to be noted that the Democratic Republic of Congo and Seychelles had not sector responsibility (www.dfa.gov.za/for-relations/multilateral.sadc). As it can be seen from this rather long, but important description, economic and social development was thought to be best managed within the context of streamlining and devolved responsibilities.

Through the years however, it was recognized that this decentralized structural framework, inherited from the former SADCC was not efficient as the organization was being restricted in its attempts to achieve regional integration by devising and implementing regional policies and strategies in a coordinated manner (www.dfa.gov.za/for-relations/multilateral.sadc). The allocation of resources to the SCUs for instance did not reflect their respective significance in promoting the integration process as the performance sectors depended on the host country's budgetary discretion. Furthermore by being part and parcel of a national administration the sector coordinating units tended to be faced by conflicting responsibilities regarding their national and regional mandate (Hoff, 2001: 6).

As a result, a decision of the SADC Summit held in Maputo – Mozambique in August 1999 was that a review of the institutional framework of the organization should be conducted as well as its operations. This review was completed in December 2000 and having been approved and recommended by the Council, was presented to the

Extraordinary Summit of SADC that took place in March 2001 in Namibia. The Summit endorsed the recommendations and called for the restructuring to be implemented with immediate effect and to be completed within a two-year period. The sectoral approach is therefore going to be discontinued in favor of a more centralized one at the SADC Secretariat Headquarters in Gaborone, Botswana. Implementation is underway at the moment and is expected to be completed by the end of 2002. The aim of SADC is therefore to create a Community providing for regional peace and security and an integrated regional economy. As a regional institution SADC has laid the basis on which regional planning and development in the region could be pursued. It also provides the necessary instrument by means of which member states should move along the path towards economic integration (www.dfa.gov.za/for-relations/multilateral.sadc).

3.2 Development Integration and the SADC Free Trade Protocol.

The majority of the integration arrangements in Sub-Saharan Africa have followed a trade-led, market based approach. This came about as a result of the orthodox economic integration theory that stipulates that regional integration should be private sector-driven. In contrast SADC has adopted a development integration approach to avoid facing the same problems inherit in the former approach. "Development integration," is a term explicitly chosen to highlight the goal of cooperation not only for trade and economic growth but also to alleviate poverty, as well as to enhance the standard and quality of life of the people of the region. A practical example of this can be gleaned from the provision of food. A family whose food intake represents one meal per day, with the right help and assistance food intake is increased from one meal per day to two meals per-day. Another example relates to that of gender, women who may be in need of personal items such as clothing are also provided with practical assistance. In this way, growth and development will not only be expressed in abstract terms such as GNP per capita (Pretorius, 2000:3)

The development integration approach was conceived as an expansion of the functional cooperation or project coordination approach. Taking into account the characteristics of the region and in view of the underdeveloped production structures and incompatible trade patterns, it stresses the need for close political cooperation in order to overcome existing obstacles and to pave the way for increasing market integration. Bearing in mind the gradualism of the classical approach, political intervention takes place at an early stage of integration in order to facilitate market processes. Additionally, the development integration approach strongly emphasizes compensatory and corrective measures to support the least developed members, and stresses the need for coordinated regional industrial development and a regional fund to support industrially weak countries (Hoff, 2001: 5).

According to Pretorius (2000:3), regional integration among developing countries is usually considered a paradigm for development. As a result economic integration is the mechanism through which to promote industrial development. Therefore, the improvement of the industrial capacity of the countries that are part of the RIA must take priority so that economic development can be achieved in the region. Historically, highly interventionist and protectionist trade regimes have characterized the economies in the Southern African region. For example if we consider the import of goods, there were implemented a variety of mechanisms such as, restrictive licensing systems, high tariffs with escalating and cascading structures, varying degree of import prohibitions and tight foreign exchange controls. On the export side on the other hand, there was significant implicit and explicit export taxes and the prohibition of certain commodities for export (Kalenga, 2000:5)

As a result, economic growth in the region has compared poorly with that of other regions around the world. According to the liberal theory on trade, which has been embraced by the international trade institutions (WTO, the IMF and the World Bank), trade liberalisation has been found to promote higher investment in developing countries. According to (Jenkins and Thomas, 2000: 8) this has been largely due to the fact that international trade facilitates technology transfers, the exchange of information and opportunities to realise scale economies, which in turn has the knock on effect of generating sustained and measurable economic development. Trade agreements are said to provide greater certainty for trade policy in general. This is particularly evident in those countries, which have a history of reversing moves in the direction of unilateral liberalisation.

Therefore, a cornerstone of the 1992 Treaty that established SADC was to promote closer regional integration. This led to the signing of a trade protocol by eleven of the then twelve members of the arrangement. At the time, Angola chose not to participate due to the civil war that was taking place in the country. With the advent of peace joining the agreement is one of the priorities of the government as soon as the conditions are created for such move. The protocol as signed by the member states was basically a framework document lying out the promise of eliminating tariff and non-tariff barriers to trade in the region over an eight-year period to start with the ratification of the agreement by two-thirds of the SADC members (www.infoserve2.ita.doc.gov).

The signature of the SADC Protocol on Trade in August 1996, confirmed the commitment of Southern Africa to establish a free trade area in the region and negotiations to determine member states' tariff structures are at an advanced stage. The protocol was ratified by more than two thirds of SADC members and it was implemented in September of 2000 and at the moment more than half of the member states have deposited their instruments of implementation of the protocol (www.dfa.gov.za/for-relations/multilateral.sadc). The establishment of a free trade area is expected to mean the freeing of around 90 per cent of intra-regional trade, in line with the WTO, which asserts that free trade arrangements should cover "*substantially all trade*" among the contracting parties (Jenkins, Leape and Thomas, 2000: 6)

Under the Trade Protocol, 47 per cent of goods manufactured in the region will trade at zero tariffs right away. These goods will be mainly from countries categorized as developed that would therefore be required to phase down tariffs faster than the other members. Such countries include South Africa, and the rest of SACU members namely, Botswana, Lesotho, Namibia and Swaziland. These will be followed by Mauritius and Zimbabwe, classified in the middle category. Last to liberalize will be the least developed countries that are considered to be Angola, Malawi, Mozambique, Tanzania and Zambia (www.infoserve2.ita.doc.gov)

Besides being designed to facilitate intra-regional trade through the establishment of an FTA the protocol is also expected to encourage regional banking with a view to easing further access to trade, letters of credit, the simplifying of documentation, customs procedures, as well as lay the foundations for more comprehensive agreements in the future. The Trade Protocol also aims at ensuring efficient production within the region reflecting the current comparative advantage of the member states. For example one of its aims is the act as a key player in terms of its contribution to the improvement of the climate with regard to domestic, cross-border and foreign investment and at enhancing the economic development, economic diversification and industrialization of the region (Mayer and Thomas, 1997: 345).

Article 2 makes provisions for the involvement of the business community in the implementation of the protocol. It urges members to develop and implement trade development policies in close cooperation with the private sector. The key link between the business community and the protocol is underpinned by is functional potential to facilitate the formation of private business associations in collaboration with the business community. This link is said to be crucial towards encouraging and facilitating the establishment of small and medium enterprises whilst promoting their participation in trade. Mayer and Thomas (1997: 345) seem to suggests that if effectively implemented, this aspect of the Trade Protocol is to be praised as the first attempt of the organization to involve the private sector in the SADC's economic agenda

Its is perhaps useful to note that the protocol prevents members from conceding new subsidies that "threaten to distort competition" but allows them to maintain existing specific commodity subsidies. A clear example of this can be seen in terms of the policy, which governs goods in transit. These will not be subject to any subsidies and only need " to pay the normal rates" for any services rendered. Regarding competition policies, these are dealt with in Article 25, which encourages member states to "implement measures within the community that prohibit unfair business practices and promote competition." In line with other international trade agreements there are also anti-dumping provisions. Infant industries can be protected temporarily although the protocol does not impose specific restrictions on the duration or the nature of the protection (Mayer and Thomas, 1997: 345).

The SADC Free Trade Protocol also allows for existing preferential trade agreement until the SADC trade liberalisation process matches or overtakes their provisions. Article 28 of the document permits members to provide each other with most-favoured-nation (MFN) treatment and keep preferential trade arrangements with third countries as long as, according to Article 27 they do not conflict with the aims of the SADC FTP. In addition any privileges, advantages powers or concessions given to a third party will have to be extended to other member states (SADC, 1997: 21)

Additionally, a country may also restrict imports if an item is being imported in "such an increased quantity as to threaten to cause serious injury to the domestic industry" (Mayer and Thomas, 1997: 345). Rules of origin are dealt with in a complicated annexure to the protocol. The protocol also calls for trade in intellectual property, trade related investment measures and trade in services to conform to the WTO regulations. Although the provisions of the trade protocol appear to conform to the requirements for an FTA it is important to note there are some flaws in its formulation taking into account the characteristics of the set of countries to which it is to apply and the main aim of the protocol itself which is to promote industrialization in the region and thus promote economic growth and development (Mayer and Thomas, 1997: 345).

While one of the aims of the protocol is to promote industrial development in the region, it fails to adequately link trade integration to industrial development. As said above, regional integration among developing countries is widely perceived as being a paradigm for industrial development and trade integration is a necessary but not sufficient condition for such integration. The protocol fails to address this issue as there are no concrete measures to direct a regional industrialization program, and not does recognize in any significant manner the critical relationship between trade and industrial development. Additionally, there are also no specific measures to ensure equitable spatial location of industries across the region, particularly to avoid industrial polarization and/or compensate countries mainly the least developed ones of the group, from which Angola is part, for losses they could incur such as de-industrialization as a result of the implementation of the protocol, due to their less developed industrial base (Mayer and Thomas, 1997: 348).

It has to be stressed that regional integration in the SADC region is a serious case of "economic unequals" fostering trade integration. The dominance in size and development of the South African economy in the region is a fact as is its considerable trade surplus with the other members of the grouping. South Africa's GDP of about R1.455 billion is bigger than that of Portugal, Greece, Finland or Ireland and the economy of the industrial province of Gauteng alone is bigger than any other African country except Egypt. The landlocked nature of many members of SADC and their reliance on the South African infrastructure further strengthen the likelihood of significant polarized development in detriment of the smaller economies (McCarthy, 1999: 387). Although the organization is concerned with the prospects of a "hub-and-spoke" system of trade with South Africa in the center, the protocol does not properly deal with this issue, as it does not for example afford preferential treatment to those members categorized as "least developed countries (LDCs)" by the WTO (Hoff, 2001: 10). While the GATT legal system recognizes LDCs as a special category of states and the several agreements of the Uruguay Round protects the right of LDCs to differential and more favorable treatment, the protocol makes no allowances for special treatment for those states in the region that fall under this category. A further flaw in the trade protocol is that it focuses on the reduction of tariff barriers while according to Mayer and Thomas (1997: 347) these are not the main obstacles to more intensive economic integration in the region but non-tariff barriers.

Nevertheless, a Trade Negotiating Forum was establish to, among other reasons, develop proposals for the implementation of the protocol and it is hoped that this organ will come up with adequate modifications to the protocol to address these issues (Hoff, 2001: 10).

The SADC Free Trade Protocol is thus flawed in its conception and suffers from an "ailment" that has led past regional integration attempts in the continent to collapse. The question is therefore whether this trade agreement can be expected to play an important role in the Angolan post-war economic recovery. The next section of this paper will therefore look at the Angolan economy and at how useful can the protocol be to foster economic growth and development in the country.

3.3 The Angolan Political Economy; History and Contemporary Profile

Angola, the third largest country in the SADC region, with a population estimated at about 12 million people in 1998 and growing at an annual rate of 5 per cent has a considerable natural resource base, the potential for significant exports of agricultural products as well as fertile highlands with favourable climate and plentiful water. However, living conditions in the country and the social standards that were already low during the colonial period are now well below Sub-Saharan averages. In 1992, while life expectancy was estimated at 52 years for Sub-Saharan Africa, in Angola it was estimated at only 44 years. Furthermore infant mortality was estimated at 30 per cent one of the highest in the world, adult literacy at 41 per cent and less than 25 of the population had access to safe water (Roque, 1997:15)

Before the end of Portuguese colonial rule (1960 – 1974), however, the economy of the country was growing at an annual growth rate of about 7.8 per cent according to the World Bank. After the Second World War, the economy of the country gained momentum as a consequence of the "coffee boom" that provided the necessary impetus for economic growth and placed Angola in the world map as the fourth largest producer of coffee. Economic growth was later reinforced by the expansion of the oil industry in 1973 when oil became the main commodity exported by the country. Apart from that Angola was also the fourth largest producer of diamonds and a very important producer of iron-ore and was self sufficient in agricultural production. It has to be noted however, that the economy was structured to serve the interests of the metropole (Cegia, 2000:17).

The subjugation of Portugal of the Angolan people was done first by conquest and after that by settlement of metropolitan Portuguese on lands that were taken in the majority of the cases from tribal ownership. This resulted in the peasantry of the country being dispossessed and forced into contract labour either as farm workers or unskilled industrial workers under very harsh conditions. Being a poor country itself, Portugal's own shortage of capital did not allow for the effective economic exploitation of Angola through investment. As a result key agricultural and mining joint ventures had to be passed into ownership of British, Japanese, American and German corporations (Roque, 1983:123)

Over time, however, Portuguese private and corporate entrepreneurs were able to establish important land holdings devoted particularly to the production of coffee, sisal, sugar, cotton and fruit. The burgeoning manufacturing sector that developed out of these agricultural activities focused mainly on food processing, textiles and clothing manufactures with the surplus of production having to be exported to the metropolitan market. Portuguese colonial rule thus resulted in the formation of two different classes among the Angolan people: a "petit bourgeoisie" that was composed mostly by intellectuals and commercial traders in their majority whites, coloureds and very few "acculturated" blacks (assimilados); and an unskilled labour force divided into industrial and agrarian components that was used as little more than a source of contract labour by the industrial and the agrarian "bourgeoisie" (Roque, 1997:17)

Only in the late 1960s and early 1970s did the Portuguese government start to invest in the provision of education and health services for the people outside the main cities. These services were available for the people in rural areas and were provided by missionaries and landowners. Despite the serious structural deficiencies the Angolan economy before independence in November 1975 was characterised by efficient agricultural and mining sectors, a developed transportation network and a continuous large and growing trade surplus (Roque, 1997:17)

3.3.1 The Angolan Economy after Independence and Current Macro-Economic Conditions.

Angola became independent on the 11th of November 1975. However, the potential for balanced economic growth and development in a post-independence environment was shattered by a fratricidal civil war that led to the destruction of most of the infrastructure of the country. Coupled with that, a critical shortage of skills; the governments decision to implement a centrally planned economy subordinate to a military agenda; economic mismanagement followed by partial reforms and distortive economic policies; very high levels of corruption and increasing dependence on oil as a single product for foreign exchange earnings and as the main source of government revenue that in turn was used for non-productive expenditures, led to the collapse of the Angolan economy (Roque, 1997:17).

The introduction of a centrally planned economy, the expropriation of privately owned enterprise including the nationalisation of productive companies and the subordination of economic decision making to military priorities, were paramount for that outcome. Government's policies encouraged an exodus of skilled manpower that was already scarce, destroyed the emergent Angolan entrepreneurial class, dislocated the market economy prompted the collapse of social, economic and financial institutions stimulated the growth of an efficient bureaucracy and encouraged rent seeking activities to the exclusion of productive investment (Roque, 1997:15).

Since 1991 taking into account the new developments in the international economic arena and as an effort to stabilise the economy as a means to attract domestic and foreign investment and to promote sustainable economic growth, the government has been implementing new economic measures to improve the macro-economic environment of the country. Rapid economic growth, sustainable industrial diversification following reindustrialisation, the creation of conditions to enter the SADC Free Trade Protocol and development are at the forefront of Angola's macro-economic policy. However due to the war that devastated the country, the economy is still plagued with serious problems.

The country's oil industry is the most important sector of the economy and together with mining contributes about 50 percent to GDP. The output per capita is among the lowest in the world despite the abundance of natural resources and most of the population depend on subsistence farming to survive. Although Angola has not yet joined the agreement, government officials are optimistic that the free trade area will be important in bringing economic growth to the country and have promised to join the free trade area in the near future with the end of the armed conflict (www.infoserv2.ita.doc.gov).

Nevertheless, Angolan economic conditions are more likely to inhibit the effectiveness of trade liberalisation than to produce the desired results. The country's macroeconomic policy is obviously inconsistent and unsustainable with high recent growth rates being largely explained by the expansion of the production of oil by the foreign multinationals that operate in the country. As a percentage of GDP the fiscal deficit is considerable although it has shown some signs of improvement recently. Monetary policy is largely inactive, entirely "swamped" by the need to finance the budget deficit. Monetarisation of the deficit is generating hyperinflation in a situation of severe scarcity (Jenkins, Leape and Thomas, 2000: 6-7)

The fact that external debt is three times annual GNP makes it vital that the domestic savings rate rise and the country run a current-account surplus instead of the present deficit. Large annual nominal depreciations are not sufficient to sustain the export drive, because of the very high rate of price inflation, which causes the real exchange rate to appreciate. Coupled with these is the fact that the absorption of domestic resources to finance the deficit and service external debt is also inconsistent with the so much desired investment in export capacity (Jenkins, Leape and Thomas, 2000: 6-7)

Therefore the Angolan economy still evidences deep economic imbalances such as excessive external debt and debt services obligations; severe disequilibria between supply and demand aggravated by the destruction of the national circuits of distribution; price distortions; exceptionally low agricultural and manufacturing productivity, amounting to the collapse of production outside the oil sector and excessive import dependency and near total reliance on the petroleum sector for export earnings and government revenue. Other economic distortions have to do with social, institutional, infrastructural and provincial imbalances. These include severe social inequalities; gross distortions of the pattern of ownership and disproportionate provincial imbalances; oversized and inefficient public sector; poorly developed legal framework and insufficient institutional capacity for the development of a market economy; scarcity of human capital and a near total destruction of all physical and social infrastructures (Roque: 1997:19).

Apart from that one of the main problems facing the Angolan economy has to do with the role of the state in the economy. In Angola, the state is the only proprietor, is the major exporter and consequently the only agent that generates foreign currency, it is also the major importer, the major employer of the economy, the major consumer of resources, the major debtor and the major investor. As a result there is little left for private initiative. To make things worse the state invests minute sums of money for the creation of the necessary conditions for growth. In average it does not invest more that 5 per cent in infrastructures; it invests about 2.5 per cent in education and a little more than 2 per cent in health. In Angola, the state is omnipresent in the economy. Its budgetary expenditures represent in average 57.7 per cent of GDP. It means that the material and the human preconditions for the solid existence of a private sector do not exist, given that the interference of the state in the economy hampers private initiative (Rocha, 2000: 50)

In a quest to improve the economic environment of the country with a view to attracting foreign direct investment and consequently to promote economic development, the Angolan government has been embarking in a policy of restoring market mechanisms and liberalising prices and foreign trade. Besides opening up trade to the private sector, several other measures have been taken to encourage foreign direct investment such as the reform of the legal, regulatory and the institutional system that governs the private sector in order to give greater incentives for the promotion of small enterprises.

Furthermore in an attempt to promote and modernize the domestic industrial sector, the government has also tried to revitalize the National Institute for the Promotion of Small and Medium Enterprises (INAPEM) and to abolish the import licenses in order to allow for the demonopolisation of the consumer goods supply channels (Jenkins, Leape and Thomas, 2000: 210).

Paramount to the attraction of foreign investment is also the development of the capital market that in Angola remains almost non-existent. So far no money market has been created because of the scarcity of currency by commercial banks. Although there are no money or capital markets at this stage, an American consultancy company has carried out a survey to analyze the prospects for the creation of a stock market and a task force has been formed to advise the government on the most appropriate method for implementation. Based on their findings a stock exchange will be created but foreign investment will not be allowed there (Jenkins, Leape and Thomas, 2000: 212).

In 2001, however, the Angolan economy has registered some changes with the aim to reactivate production and consequently stabilize the balance of payments. There have been some improvements particularly in the banking system with the opening of new banks and new bank branches in the majority of the provinces of the country. These new banks contrary to what happened in the past are now able to provide credit to small and medium enterprises including those involved in agriculture. Coupled with this, these banks have improved and increased the range of services offering at the moment home loans, car finance and other services (Cafussa, 2002: 19).

On the other hand the interest rates are still among the highest in the world at 120 per cent a year what has been one of the major impediments to private initiative and consequently to industrial development. On the other hand the interest rate on deposits practised by the majority of the banks is still well bellow the mark of 10 per cent, fact that acts as a deterrent for the increase in private savings. Nevertheless the industrial activity in the country outside the oil industry registered a growth of about 10 per cent in the year 2001 (Cafussa, 2002: 19).

In terms of economic stabilization, and although the situation of hyperinflation remains, there has been some developments. The annual inflation rate dropped from 305 per cent in September 2000 to 126 per cent in September 2001. From a deficit in the balance of payments of around U$D 1,857.7 million in 1998 it is expected that in 2001 the balance of payments registers a surplus of U$D 413 million. Due to these very slow but steady improvements in the economy that have to do mainly with the relative political stability and the increased foreign investment in the oil sector owing to the discover of new oil wells, it is expected that the inflation rate drops even further to 50 per cent in 2002 and the economy is projected to grow 15 per cent (Alfredo, 2002: 18).

These and other positive economic indicators have prompted the reestablishment of contacts between the government and the International Financial Institutions so that they can assist the government in the consolidation of the process of economic reforms that was reinitiated in 1999. As a result, Angola signed a nine-month economic monitoring program agreement with the IMF that requires the government to undertake a sustained program of economic reforms before it is considered for a formal loan agreement. Under the agreement with the IMF, Angola has promised to allow outside auditors to examine the way it spends oil money. The IMF stated in July 2001 that although several economic targets were not met, the Angolan government has made progress in several areas including price liberalization, exchange rates stability and reduction in inflation that for the first time in eleven years reached the mark of 49.5% in the first months of 2001 (www.eia.doe.gov/cabs/angola.html).

3.3.2 The SADC FTP as a vehicle for the Angolan Post-War Economic Recovery.

One of the most fundamental move towards lasting change came into being with the advent of peace. This move has been largely due to the cease-fire agreement signed between the Angolan Armed Forces and the UNITA Military Forces on the 4th of April 2002. One could argue that one of the most important pre-conditions for economic stability and development in Angola has been fulfilled, that of political stability.

Consequently coupled with the economic reforms that have been taking place and aware of the dire situation of the country, the government has decided to revise the budget to allow for the allocation of funds to the rehabilitation of the infrastructure. This move is said to allow for the free movement of the people and goods and boost foreign direct investment, which is one of the main objectives at the moment (*Actual*, 13/04/2002).

Although there is the potential for polarised development in the region in favour of South Africa and despite the fact that Angola can be considered as one of the least developed countries in SADC, there are according to McCarthy (1999: 396), a number of factors that count in favour of the country. In that regard, a facet of the dominant position of the South African economy in the region should be emphasised namely, the existence of a large modern sector that is dominated by a sophisticated private business sector that can contribute to a certain extent to the economic development of the country. While there are still restrictions on the movement of labour in the SADC region, capital is more mobile particularly from South Africa in the form of foreign direct investment as companies from that country are encouraged to invest in the region as part of the global strategy of the South African Department of Trade and Industry (*Cape Argus,* 18/04/2002).

Due to the low labour costs and the labour intensive economy of the country, the Free Trade Protocol is thus likely to produce an increase in foreign direct investment in Angola from South Africa in other sectors other than the oil industry that at the moment attracts the most FDI. This will play an important role for the diversification of the economy and the creation of a dynamic industrial sector as investments in sectors like wholesale and retail operations, manufacturing, and in the leisure sector will take place, increasing the production capacity of the country particularly if this cross-border investment takes the form of the relocation of South African production facilities to Angola. As stated by McCarthy (1999:393), the interaction of forces in this regard would be the wage gap relative to transport costs, with the cross-border investment happening according to the "Krugman-Venables model of regional relocation". In line with this model, the higher the transport costs in a region, the stronger the force of external economies associated with backward and forward linkages to encourage the location of production near an existing metropolitan concentration. But when a considerable wage gap develops between the developed centre, in this case South Africa, and the less developed periphery, in this case Angola, a critical point develops that will push industry to the low wage country.

This could be the outcome of high labour costs in South Africa compared to those in other SADC countries, rising to such an extent as to render transport costs and agglomeration advantages less important considerations. Improvements in the regional transport and communications infrastructures could also facilitate cross-border investments from South Africa by decreasing the natural barriers to trade, reinforcing the trade-enhancing potential of the lowering of the artificial trade barriers such as tariffs levied at the border. It is also reasonable to expect that in Angola the Free Trade Protocol will impact positively on consumer welfare. As a result of the removal of tariff barriers, products imported from outside the region will be replaced by more competitive South African goods that can enter the market duty free in competition with imports that are subject to a scale tariff wall (McCarthy, 1999:392-394).

Besides enhancing consumer welfare, the removal of tariffs in Angola may also lead to trade creation as more competitive South African products replace domestic production. Although this competition might promote efficiency and a decrease in the prices of imported goods this may also lead to the loss of jobs as those companies and firms in the country that are not competitive enough will be put out of business. The more productive firms with cheaper products will nevertheless find it easier to find new markets resulting in expansion and thus creating new jobs. In the shorter to medium term however, this is likely to take place only in the oil industry, which is one of the most developed in region and has the capacity to produce and provide the local market with oil related products such as liquid fuels and petrochemicals at more competitive prices than other countries in the region (Rocha, 2000: 51).

As with many countries in the region, the Angolan government, although to a lesser extent also relies on tariffs as forms of revenue. As a result of the SADC FTP the Angolan government will lose this source of income from tariffs regarding trade with other SADC member states. This has particular implications in relation to South Africa, a country that has been increasing trade with the Angola at an incredible pace. Dludlu, (1999:1) offers a word of caution. He suggests that this might lead to an increase in taxation to counter reduced tariffs income unless the government finds other ways to diversify its revenue sources. It has to be noted though, that the net impact will depend on the amount of imports that originate from other SADC countries once the statistics also include revenues from outside the region (Dludlu, 1999:1)

It must be stressed that the importance and the impact of the SADC FTP on Angolan development will be determined by other even more complex factors such as bilateral trade agreements that the country is part of and other free trade agreement that exist in the region between its SADC partners and third parties. Tekere and Rusare (2001:3) believe for instance, that the signing by South Africa of a wide-ranging trade pact with the European Union is likely to create more problems for the less developed countries of the region, a group of which Angola is part. The South African – EU agreement will open up South Africa's market to 86 per cent of EU goods over a period of twelve years while opening the fifteen EU economies to 95 per cent of South African goods over a ten-year period. According to same authors, many sectors across the region will become vulnerable to intense competition from European producers resulting in the South Africa's smaller trading partners being hard hit by the new agreement.

For good reasons, SADC has incorporated market integration into its concept of development integration with the aim to promote productive investments. The development component however, requires governments to intervene and public resources to be spent for building capacities. With South Africa's decision to join the regional agreement, the prospects to implement a development integration approach were considerably enhanced owing to the superior resource endowment of the country. However, although South Africa is the regional economic hegemon its economy is not competitive enough in the global market. Burdened with social and economic problems, the country cannot be expected to be overly generous in putting up resources for regional projects at a large scale or giving preferential treatment to neighbouring countries (Hoff, 2001: 11).

On the other hand, as mentioned previously the SADC Free Trade Protocol, has emerged as a deficient policy framework to drive the integration process in many areas. These include the following: failure to provide for differential treatment for least developed member states, the absence of adequate provisions to foster equitable industrial development in the region and the absence of compensatory mechanisms. According to Mayer (1997:2), the SADC FTP is thus unquestionably a weak instrument for accomplishing the organisation's objectives of achieving product, market and trade integration with industrial development as one of the most important aims of the integration agenda. It is from this premise that we are able to draw the conclusion that in order to achieve these objectives, policy instruments that lie beyond the trade protocol are required both from the region as a whole as well as from individual member states particularly the less developed and the poorest ones like Angola. Nevertheless, considering the broader integration approach embedding market integration into a concept that aims at investment, production, enhancing industrial capacities and capabilities in the first place, and with solid foundations laid during the sector coordination phase, SADC is certainly in an advantage position to successfully meet the challenges and demonstrate that regional integration can be an asset for development in Africa (Hoff, 2001:14).

CHAPTER FOUR

Conclusion

The aim of this research assignment has been to determine if Regional Integration Agreements (RIAs) are a viable model for sustainable economic growth and consequent development in Sub-Saharan Africa (SSA). With reference to Angola, this paper has attempted to show that although many past regional integration agreements in the continent have failed, the SADC Free Trade Protocol has the potential to succeed and play an important role for economic development in the region and in the country in particular.

To conclude the discussion therefore, the first part of this chapter will be devoted to the evaluation of the free trade theory which was used as a strategy for the creation of RIAs in the continent with the intent to find out whether the orthodox theory is relevant to the circumstances of developing countries and can be applied in the African context. Besides reporting on the findings of the study, this chapter will also attempt to provide some recommendations regarding the improvement of the trade environment in the region as well as for the Angolan policy makers as, given the specificities of the country's economic conditions, there are economic policies that must be implemented if the country is to effectively benefit from trade in the region in order to bring about economic growth and development.

4.1 The Theory of International Economic Integration and the African Experience.

The foundations of the theory of economic integration were introduced by Jacob Viner who developed the theory of customs union in which he brought up the concepts of trade creation and trade diversion. There he tried to demonstrate that a general assumption regarding the welfare gains of integration arrangements is not applicable as the net gains from these arrangements depend on the balance and the relative strength between trade creation and trade diversion effects. These conclusions are reflected in the GATT and the WTO rules regarding RIAs, which try to reduce the diversion effects of regional trade and provide the greatest scope for trade creation in regional integration arrangements.

However, as many authors have tried to demonstrate, these concepts are not able to grasp the general welfare effects of regional integration given the fact that they do not cover the dynamic effects of integration such as economies of scale, increased competition, technology transfer and consumer welfare. This is the case because the orthodox theory of regional integration evolved with the developed countries of Europe in mind and with the sole aim of clarifying the problems of integration in that part of the world. According to Robson (1998:270), the validity of the theory's relevance to African countries requires the consideration of two important issues namely; the extent the characteristics of less developed countries favor trade creation in regional integration and whether trade creation is the most important criterion to evaluate regional integration agreements among such countries.

In general it is difficult to summarise the circumstances that can encourage trade creation, but the most widely accepted recommendation is that trade creation's greatest chances of success occur when domestic production of potential member states is larger than their trade externally and where trading partnerships are already in effect with other members. Thus the conditions that are conducive to trade creation are opposite to those found in most African countries when regional integration was first introduced on the continent. Chapter two illustrates how external trade in African countries was regularly larger than their domestic production and intra-regional trade was mostly a small percentage of total trade (Robson, 1998: 271).

Many of those countries relied, and still do, on primary products as main exports, which are freely traded on world markets, and integration is unlikely to affect significantly the volume of resources allocated to the production of such commodities. On the other hand

African countries imported mainly intermediary and manufactured products, which many of them either did not produce at all or produced only to a limited extent in highly protected industries. In terms of the conditions for gains in orthodox regional agreement theory, therefore, integration among African countries may appear to be irrelevant, or even harmful as trade diversion can take place, except for the more developed of such countries (Robson, 1998: 271).

Trade diversion is considered detrimental because both the rest of the world and the member countries are said to be worse off as a result of diversion of production from more efficient foreign suppliers to the less efficient domestic industries of member states. However, according to Todaro (1994: 511), this argument of the orthodox theory of integration ignores two basic facts that are worth considering. First, due to potential economies of scale, the creation of jobs and the circular flow of income within the RIA, static trade diversion may turn out to be dynamic trade creation. Second if in the absence of integration, each member state was to protect its local industries against all more competitive foreign suppliers, the common external tariffs of member states would cause no more trade diversion than would have happened anyway. On the other hand, if there are scale economies, the possibility of dynamic trade creation can emerge (Todaro, 1994:512).

Long-term gains of economic integration in lesser developed countries are dynamic rather than static. Regional integration allows African countries space to exploit larger markets through the creation and expansion of industries. In addition to this, countries have the opportunity to divide labour rationally and efficiently as without integration each separate country is too small in market size to enable local industries to lower their production costs through economies of scale. Removing trade barriers means that African countries can start to coordinate industrial planning mainly in those industries that are able to generate economies of scale (Todaro: 1998: 511).

Therefore, the advantages expected from regional integration in Africa are different from those put forward by the static concepts of trade creation and trade diversion introduced by Viner. The thought that regional integration among African countries is not applicable and may even cause harm as a conclusion is inaccurate and irrelevant to this study because it comes from a false assumption. The rationale for African RIAs is not so much about static gains but dynamic ones. Consequently, although useful, the concepts of trade creation and trade diversion should be analyzed in the dynamic context of growth and development and based on the realities of the existing trade policies of developing countries, rather than in the theoretical vacuum of the orthodox economic integration theory (Torres, 1999: 131).

It is useful to analyze the failure of previous experiences of regional integration on the continent and the possible success of new ones, taking into account the policy context in which these experiences took and are taking place. As indicated in chapter two, the first wave of regional integration in Africa failed in the majority of cases as most regional initiatives were unsuccessful in the achievement of their aims regarding trade expansion and growth. Only a reduced number of RIAs fully met their commitments to trade liberalization and fiscal and tariff harmonization. Of those that succeeded in implementing their programs most were not able to generate considerable intra-regional trade expansion, regional specialization and faster economic growth.

As indicated by Robson (1998: 274-275), highly protective and inward-looking policies, such as import substitution, implemented by states in most previous African RIAs, meant that gains from actual or potential trade creation were often small and sometimes offset by trade diversion. Import-substituting industrial development during this period usually failed to result in net saving of foreign exchange. In those instances, where policy was effective in encouraging balance, balance was only achieved mostly at a high fiscal cost and at the price of sacrificing regional specialization, which was a presumed source of gain and the rationale for integration. From previous experiences, one of the very few exceptions is SACU, which was able to generate positive growth effects in Botswana, Lesotho and Swaziland, and is still in existence after more than eighty years in operation.

The new wave of regional integration agreements that started to emerge in the past decade and from which SADC is part, is taking place in a completely different national and global policy context from the previous ones. In the majority of the cases many of the countries involved are trying to move away from the promotion of industrial development through import-substitution to outward-looking policies based on export promotion, which in many cases has led to increased industrialization and economic growth. Furthermore, the new regional integrations schemes among developing countries are taking place in the context of increased globalization of production and trade, a process that has been stimulated by technological innovation in transport and communication, which have reduced the natural barriers to trade. International financial liberalization has also facilitated the pursuit of new strategies of investment and production by Transnational Corporations (TNCs), which has led to a considerable growth of FDI, flows in the past decade. Foreign direct investment and the transfers of technology, training and trade, have been the primary means by which a number of developing countries have been able to integrate into the global economy (Robson, 1998: 279).

Due to the fact that the pattern of FDI flows is extremely polarized, regional integration is seen by many economists as a means by which developing countries, particularly African ones, may be able to avoid being excluded from the growth benefits that arise from the globalization of production by attracting considerable FDI (Robson, 1998: 279). To effectively attract investment, however, and to enable benefit from technology transfers, which will be paramount for achieving industrialization and development in the region, a free trade area is not enough. Therefore, additional policies to trade protocol are required from the region as well as the Angolan government.

4.2 Policy Recommendations to Strengthen the SADC Free Trade Area.

There is the belief among SADC policy makers that a free trade area will generate the necessary economies of scale to overcome the smallness of the domestic markets. However, according to Harvey cited by Kalenga (2000:4) this is an illusion as such an enlarged market is still extremely small by international standards. An enlarged market should reveal growth prospects to be able to complement trade. This requires the integration policies to have as main objective the stimulation and enhancement of growth. Given the fact that investment is a major determinant of economic growth, a free trade agreement should be underpinned by policies that are favorable to investment formation. One of the prerequisites for investment is that the process of regional integration should be credible from the point of view of prospective investors to generate the necessary dynamism. Credibility in this sense means that the integration process must not be prone to reversal requiring therefore, the unconditional political commitment by regional leaders and policy makers regarding implementation (Kalenga, 2000: 4). Although the new institutional framework can be considered as a step to ensure implementation and enforcement compliance, SADC leaders, are required to increasingly pool their sovereignty around common economic and development purposes, demystifying the traditional sovereign obstacles for implementation (Tekere and Russare, 2001: 5). According to Fine and Yeo (1997: 438), credibility, particularly macroeconomic credibility is important as it encourages high rates of domestic savings, as well as sustained flows of funds from both local and external sources.

Although one of the main aims of integration arrangements is to promote industrialization, there are no visible approaches taken in implementing regional policy on industrialization. At the moment, SADC member states have divergent industrial policies, objectives and strategies. A common feature that can be observed across the region is the extreme importance countries place on the role that FDI is expected to play in industrialization. This focus on industrialization is driven by the need to stimulate the manufacturing sector that in many countries is almost non-existent. Other sectors such as services do not receive the same policy attention although this differs from country to country (Kalenga, 2000:14).

Nevertheless, investments in the manufacturing sector remain insignificant compared to the investment either from local or external sources on the primary or services sectors. Although WTO rules constrain member states' flexibility to choose their industrial policy instruments, many countries in the region have failed to make use of the transitional phase allowed by the WTO to promote domestic industrial adjustments. Therefore, SADC should intensify debate on the practicability of a regional industrial policy framework, mainly on sectors and products, which have a comparative advantage, and potential for high growth and value added and to consider the type of intervention needed to improve the competitiveness of these sectors and products. Additionally, the region should pay more attention to non-manufacturing sectors such as agriculture, services and mining as constituting a very important part of SADC's industrial development strategy (Kalenga, 2000: 14).

One of the main problems faced by the SADC Free Trade Area is the potential for polarized growth in favor of South Africa to the detriment of the smaller and less developed economies of the region. As a result, and for the equitable distribution of benefits too, many SADC member states have suggested that a revenue-sharing formula similar to that of SACU may be used to compensate smaller countries for the costs of trade diversion that will inevitably take place in the FTA. However, according to Jenkins et al. (2000: 19), there is no strong economic case for payment of compensation by net intra-regional exporters within an FTA. However, it has to be noted that economic integration is not viable unless member states perceive themselves as being net beneficiaries. Payment of compensation cannot be relied as an alternative source of revenue for less developed countries, but rather as an equitable distribution of benefits between private economic agents. For this reason, as said by Jenkins et al. (2000: 20), it would then be more beneficial for the Southern African region, if governments removed exchange controls on intra-regional flows of funds particularly regarding FDI. This move towards a more open economic environment would facilitate private capital mainly from South Africa to look for better investment opportunities in other countries of the region.

Additionally, what could also play an important role as to reduce the regional asymmetries are investment incentives and educational and infrastructural development in order to advance the aims of the FTA. This regional investment could be funded by governments by means of a regional fund with contributions proportional to each country's exports topped up with donors' funds. (Jenkins, Leap and Thomas, 2000: 20).

In other words the combination of fiscal transfers with the measures to mobilize resources for priority projects particularly in the less developed countries of the region may be more likely to yield the desired results than fiscal transfers alone concerning the distribution of gains (Tekere and Russare: 2001:7).

As discussed in chapter three there are some factors that count in favor of Angola as one of the less developed countries of the region despite the potential for polarized development in South Africa. These include an increase in FDI particularly from South African sources, in other sectors other than the oil sector, which may lead to the diversification of the export base and the enhancement of consumer welfare, and trade creation as more competitive products from South Africa replace more expensive products imported from other sources or produced in the country. This, however, is more likely to take place in the long-term due to the economic conditions of the country that are not conducive to the above outcome. In the short to medium term however, the free trade area is more likely to lead to unemployment as firms in the country which are not competitive enough will be put out of business by more competitive firms; leading to loss of revenues from tariffs regarding trade particularly with South Africa and to de-industrialization in the country as firms will tend to find locations in the more advanced economies of the region.

In order to avoid and or to counter balance the negative impact that the free trade area might have for the Angolan economy in the short to medium term, it is evident that there are some policies that need to be in place so that the country can make the most out of the proposed free trade area. These include sound macroeconomic and microeconomic policies, taxation and fiscal adjustments, and the creation of conditions to attract foreign direct investment. In terms of macroeconomic policies, besides reducing government deficits, the government should also put in place a sound exchange rate policy, which is very important in supporting trade liberalization initiatives. (Jenkins, Leape and Thomas, 2000: 20).

Regarding microeconomic policies, the Angola government should encourage private sector investments by assisting small and medium-scale enterprises in order to fight the unemployment that might take place in many sectors of the economy. In addition to this the government should also increment its reorganization of national producers for new foreign investment and encourage dialogue between the private sector and entrepreneurs in the region in order to create a competitive and dynamic private business sector able also to participate fully in the integration process. With the end of war, one of the main prerequisites for the attraction of foreign direct investment has been fulfilled, that of political stability. However, there is still a lot that has to be done in terms of macroeconomic stability. Paramount to the attraction is also adequate infrastructure particularly for telecommunications, transport and the provision of water and electricity. In this regard a lot more investment from the government is needed in order to improve the infrastructure of the country. Attention should also be given to incentives to promote high rates of private investment and the rapid accumulation of human and physical capital as examples of East Asia and post-war Europe suggest that these factors play a considerable role in sustaining rapid economic growth (Fine and Yeo, 1997: 443).

However, all of the above requires good governance, an aspect where the Angolan government has performed very poorly. In Angola, good governance should aim at the creation of a capable and effective state, that is, a state in which the public service, the legislature, the judiciary and statutory bodies are empowered to provide an enabling environment for the private sector and civil society to play their respective roles in a mutually reinforcing manner. For such an enabling environment for investment by the private sector, both national and international, to exist, it is essential to have good legislation, the rule of law, effective regulatory institutions, and a range of other governance tasks (www.africaaction.org/featdocs.pdf).

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